Mr. V Vaidyanathan, MD & CEO – IDFC FIRST Bank speaks to CNBC TV18 on Q4 FY21 results

Anchors: *Latha Venkatesh, Anuj Singhal, Surabhi Upadhyay*
Duration: 13 minutes, 36 seconds
May 10, 2021

Latha Venkatesh: Okay, let's speak about mid-sized banks. IDFC FIRST Bank posted mixed numbers, you can say because growth in deposits etc. is very good but asset quality will be an issue because there is a slippage of about Rs. 5,300 crore. We are joined by Mr. V Vaidyanathan, Managing Director and CEO at IDFC FIRST Bank. Mr Vaidyanathan, Good Morning. Can you take us through the asset quality picture, I think you've reported slippages of Rs. 5318 crore in the fourth quarter. Can you tell us how much you wrote off - we got a consolidated number, recovery upgrades, write-offs.

Mr. Vaidyanathan: Actually, I don't think, to be very honest, I can't reconcile with the number of slippage of Rs. 5000 crore you talked about. The way we have put the numbers together, we have said that our Gross NPA last quarter in December was 4.18 per cent. Now our Gross NPA is 4.15 per cent. Our Net NPA was 2.04 per cent, now our Net NPA is 1.86 per cent, sequential quarter-to-quarter. So, basically, we feel that broadly quarter-to-quarter nothing has fundamentally changed because last quarter we already reported proforma NPA which already factored the Supreme Court waiver going off.

Anuj Singhal: Okay, Vaidyanathan, Good Morning. The other highlight of your result has been your deposit growth and the CASA growth. There's been some strong momentum - 51.75 per cent now. Any thoughts on whether that can continue.

Mr. Vaidyanathan: Yes, definitely I think. We have a strong brand. People think of us a clean bank and ethical bank and we do all the right things. Our product proposition is very strong not just the rate, all the bells and whistles that go around it in terms of features we have and all the technologies have been fantastic. So I think all of these things are really good from the customers' point of view. So, our CASA has ramped up quite a lot. Our CASA is now 50 percent - 51 per cent, we really feel good about that. We actually dropped our saving account interest rates from earlier 7 percent to 6 per cent. We brought down from 6 per cent to 5 per cent now but we still believe that it will grow.

Latha Venkatesh: Okay, Mr. Vaidyanathan I still want those details what was your slippage number and what was the write-off number.

Mr. Vaidyanathan: Just on that one account you'll have to excuse me Latha, because I am not prepared for that very specific question.

Latha Venkatesh: Okay, can you tell us how the book will move, I mean what have you in terms of SMA 2, and now with this Q1 lock down going in for about 2 months. Looks like April and May will be gone. You have to give us some guidance of how the stressed assets might move.

Mr. Vaidyanathan: Yes, our broad picture is that like I said quarter to quarter is not a significant change, but if you saw what was to the bank prior to COVID, say in December 2019 to now, our gross NPA has gone up by 160 basis points because of COVID and net NPA also went up by about, maybe 100 points or so.

Now that we think that when you look ahead there are two categories of customers in our books. One is, of course, the corporate customers, second is the retail customers. Within retail customers, we have category of home loans, loan against property and business loan etc. and then we have the lower-end customers like consumer durables, two-wheeler loan customers whose income profile is relatively weaker.

Now when we stack the order together, the first three we talked about we feel that there will be broad increase in NPA like 100, 150 basis points that has already happened but the lower order customers we talked about durables, 2 wheelers etc, we do see asset stress is there and we have seen that our NPA on those segments have gone up. We also do cross selling of loans to the consumer durable customers, that's about Rs 5,000 crore of loan book and we have about a Rs. 2600 crores of consumer durable book, we have about a 5000 crores of two-wheeler book. Now these are the areas where we find more stress than others.

Latha Venkatesh: Okay, time permitting, I will come back to the asset quality Mr. Vaidyanathan. But can you just take us through your borrowings. Of course, your deposits are superb in terms of their growth, but you were retiring, I think, some long-term bonds. So, you know your total borrowings year-on-year falls, but quarter-on-quarter increases. Can you just explain what happened in Q4.

Mr. Vaidyanathan: Okay, generally speaking we are running down our past borrowings because they were priced at about 8.5 to 8.6 per cent and we are incrementally able to borrow money below 5 per cent, so obviously whenever any of those come in, you know we just happily pay it off and we run it now.

But, last quarter we got a large credit line from NABARD and that is borrowing technically on the books. But that was really cheap like 5.1 percent or 5.2 percent, we got long term money like four or five-year money. So, it was so good, so attractive so we picked up the money and kept as part of our borrowing. That's why you see borrowing going up but if I would have to use the term, it is a good low-cost borrowing that came from NABARD for us.

Surabhi Upadhyay: Okay, got that. Mr. Vaidyanathan good morning. I do have some more questions on asset quality, so if you could just allow me that. Now provisions were up quite a bit quarter-on-quarter, you've gone to about Rs. 600 crore from about 480 crore, but still the overall provision coverage ratio has come down quite a bit, so if you could give us some guidance on the way provisions will move from here on. Also, how credit cost will move from here on and whether the buckets that you mentioned consumer durables, you know some of these retail buckets whether there will be higher write-off in those categories.

Mr. Vaidyanathan: I will answer that very specifically. You know just not because of COVID, even prior to COVID - if you recollect, you know, we merged in December 2018. At that point of time, largely, the retail book was the Capital First loan book so to say, and then it migrated to the bank and then it got a banking liability franchise. At that time, to just give you a picture, we had close to 17 per cent of our customer base which were new to credit at that time, like 17-20%. In due course after becoming a bank what we have done is we have been improving our credit criteria all the time because the cost of funds came down. We started moving to safer and safer credit.

So new-to-credit customers, to give you a data point for our bank is only 10 per cent, what was 17-20 per cent two years ago. So incremental customer base is, of course, getting better. There is one more data point which might help you since you wanted a deeper colour – that two years ago, our number of customers with credit bureau score above 700 was 64 per cent, last quarter it was 83 per cent.

So, incrementally quarter-on-quarter, the bank is of course improving quality of underwriting. Because we are bank and we got to be playing safer and safer credit. Now we will be incrementally doing home loans, prime home loans so that also will improve the quality of the credit.

So, basically our approach is that we are continuously improving the quality of credit. Of course, after COVID-1, we further improved the criteria on the basis of which we were going to lend for the COVID affected industry. So, I think all of these schemes are incrementally getting better and better - that's what a bank should do and that's what we are focusing on.

Latha Venkatesh: Okay, well, I found your stressed assets or your slippages it is 2254 crores. I was just going through your presentation. I mean it's okay, it's not big. The important point it's been declining steadily for the past….

Mr. Vaidyanathan: Now, I can reconcile your numbers. It's not Rs. 5000, it's Rs. 2200 crore.

Latha Venkatesh: Yeah exactly.

Mr. Vaidyanathan: And that number Latha has been declining for the last 6 quarters as you can see. And those are, we have identified these sectors – it's not like they are – these are not today's slippages. At the time of merger, we have accounted for some Rs. 5000 crore of stressed assets. Every quarter some of them are paying off. Net net today - we call off like Rs. 2200 crore.

Latha Venkatesh: Yeah, you have spoken about one large telecom account marked as stressed and provided 15 per cent against an outstanding of Rs. 2000 crore. So, maybe someone added that, I don't know why the number was mistakenly mentioned but your write-off is not mentioned, you don't recall that number.

Mr. Vaidyanathan: I don't recall the number off-hand. But I'll give you a short answer as I don't want to duck any question. On the write-off front what we do is that we have a provisioning policy that comes, you know, like a clock machine at 90 dpd, 120, 150, you know, we provide certain buckets, that's provision.

Out of the provision bucket, we write off in due course but that's much later, but remember one thing that when write off is coming, first provision happens so market can see the numbers as it is. Write off comes as a sub-item of the provision. So, let me be very clear that write off is not meaningly moving the books of the bank. The provision for the real numbers, provision hits the P&L, everybody sees the number so you can focus on the provision and write-off as one family. It's as good.

Surabhi Upadhyay: Okay, Mr. Vaidyanathan I understood the point you explained with respect to better underwriting very well, but if you could provide some specifics in terms of the guidance on some of key parameters: credit cost, also recoveries and upgrades whether you see – what's the trajectory you see ahead and also perhaps write-offs. Whether they will continue to be high as you move down the year.

Mr. Vaidyanathan: I told you please see write-offs and provisions as one family because write-offs are a subsidiary or a sub-element of provisions. But coming to your more specific questions about guidance about how things are looking. The way we look at it is that when COVID struck, there were a set of segment of customers, like everybody in the banking system has got affected by COVID, let's think about it, like suppose we are lending to a restaurant, and we were, suppose we are lending to a hotel, and suppose we were lending to a very COVID-affected industry - now travel and tourism. Obviously that set of customer base just flows through the P&L, first comes to provisions and then comes to the P&L.

The way we look at it is that once the COVID-1.0 wave eased up between September 2020 to March 2021, we saw collections come back right 100 per cent of pre-COVID, this is very important to note, which means that the underlying theme is customers want to pay. They are delayed, no doubt, and to the extent of the 4.2% that you talked about. So, people are delayed. When economy picks up then they start paying back.

Now wave 2 is coming. We are of course undoubtedly concerned because many of our customers will find it difficult to pay, can't say in terms of percentages how the incremental delinquency comes, but chances are when the wave 2 also recedes, again customers will pay back because underlying retail customer behaviour is that nobody really wants to default. It is only their economic compulsions of the moment and the economy lifts, they pay back again.

Latha Venkatesh: Just a quick word Mr Vaidyanathan. Since we are running into market opening and the market's opening with a bang, what is the likelihood of you using the new restructuring. Have you identified loans under Rs. 25 crores?

Mr. Vaidyanathan: Last time our expectations were about 2 per cent, actually as the numbers turned out, it is 0.9 percent and the restructuring is yet to come, but broadly it's 0.9 per cent of the book.

Now phase 2, we think that this could be, I mean, we haven't really, it's only depending on how the customer behaviour comes through and how the ferocity of the wave is but let's take a guess and let's say about 1.5% or 2%. If that comes about, we will probably restructure it.

Frankly the way we look at it is that you know I can give you one colour away from the restructuring – it's the previous question that you really wanted to get little more detail. Let me share the following information with you for the benefit of the viewers - 40 per cent, if I want to break up the portfolio, 40 percent of our customers is home loans, loan against property and business banking where portfolio is secured by property, that's 40 percent, 15% of our loan portfolio is vehicle financing, 15% of our portfolio is about personal loans and other credits, I talked to you about cross-sell and all that, 10% of our loans is rural loans and about 3.5% of our loans is consumer durable loans.

If that gives you a bit of a colour about what might be the impact, but we feel that things are broadly manageable. The issue is not about the credit cost. The issue is the bank has a relatively higher cost income ratio because we are a new bank, we are setting up branches and all that. And we'll have to glide through it, and as the business expands, that problem will solve by itself.

Latha Venkatesh: We will leave it with that Mr Vaidyanathan. Running into market opening. Thank you very much indeed for joining us and all the very best for what is going to be a difficult quarter, the Q1. Hopefully, we will bounce back in Q2.