'IDFC First to focus on cash flow-based lending business'

Shayan Ghosh
shayan.g@livemint.com
MUMBAI

Private sector lender IDFC First Bank posted a 61% rise in net profit in the June quarter on the back of 36% growth in net interest income. Its loan book and deposit book grew by 25% and 44%, respectively, over a year ago. It also expects to continue growing at a steady pace. In an interview, IDFC First's chief executive V. Vaidyanathan said demand for working capital loans from small businesses is on the rise following the government's capital expenditure push. *Edited excerpts:*

INTERVIEW

What is your outlook on credit and deposit growth for FY24?

We guide the bank to grow at 22-24% on the loan book side. Our base is still very small. If you look at our base, the loan book is only ₹1.7 trillion. The Indian banking system's aggregate loans are at about ₹150 trillion and, therefore, this is just the beginning for us. The retail book for our bank is about ₹97,000 crore, so growing at 24% in this large market is quite achievable. Besides, there are guard rails or more precise tools for cash flow-based lending due to the formalization of the Indian economy. Now we can see transactions and balance in the bank account. Credit bureaus have 600 million records. On the deposits side, we can grow 40% this year without having to increase interest rates in the current market environment.

> On the deposits side, we can grow 40% this year without having to increase interest rates in the current market environment
>
> **V. Vaidyanathan**
> CEO, IDFC First Bank

While you're shrinking the legacy infrastructure book, are you open to fund corporates, at least the well-rated entities?

Yes, of course. We believe in only one thing—cash flow. There's a difference between a corporate already generating cash and one which says it will. Our experience has been that project financing has project setup risks and we do not want to take setup risks of any type. But if a corporate is generating cash, we look at it. We are open to working capital finance as it is based on cash flow.

Where is working capital demand originating from?

Small and medium enterprise working capital is a huge area. The government has set a capex target of ₹10 trillion for FY24, and it is going into projects, whether roads, bridges or highways. The capital is flowing down to ground-level entrepreneurs because the government gives the job to a contractor, who then gives it to subcontractors. So, big money is funding small businesses and their requirement for working capital is there.

Some banks are reporting attrition at junior levels, especially in sales. What is the situation at IDFC First?

The trend which the reports have highlighted is true. Our numbers and attrition at entry levels typically are more for those opening accounts. We compared our numbers and we are kind of better than what reports suggest. We will be putting them out as part of the annual report. When a bank opens branches, it looks out for experienced salespeople, and naturally the employees in their early 20s get a higher compensation if they move.

When will the bank exit its legacy infra exposures?

For all the legacy infrastructure loans that came with the merger (IDFC Ltd and IDFC First), we gave a glide path of FY25. Now it is at ₹3,600 crore from ₹22,000 crore in FY19. In two years, this entire book will go away.