

# 'Expect NPAs to reach pre-covid levels soon'

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**P**riate lender IDFC First Bank has reported a net loss of ₹630 crore during the June quarter owing to higher provisions and a large road asset of ₹850 crore turning bad. In an interview with *Mint*, V. Vaidyanathan, chief executive officer, IDFC First Bank, said the bank will not face any significant loss, as repayments from this road asset, though delayed, are coming in tranches and overall collections are improving after the second wave. Edited excerpts:

## Why did asset quality deteriorate in the June quarter?

In the June quarter one account of ₹850 crore slipped. It is a Mumbai-based toll road. That borrower was always behind schedule in the bucket special mention account (SMA-2), but was paying. Now, because of covid-19, it turned non-performing. We feel we will eventually not have any material economic loss from it as it is an operating project. Repayment is delayed but coming in small lots. Our infrastructure accounts have a bad loan ratio of 15.65% and that includes this one. The important thing is that infrastructure is a rundown book as we are not booking any more of such assets.

## Do you expect any significant deterioration in retail asset quality?

In retail, the gross NPAs are 3.86% and net is 1.82%; that is not much in the context of covid-19. More than NPAs, credit loss is the true indicator of credit quality. At the bank level for the full year (FY22), including provisions taken this quarter, we guide for our credit loss to just 2.5%. For the next year we are guiding for less than 2%. At these levels it's as good a benchmark as any. The issue is not credit quality, it's just that because we are a development finance institution (DFI) converting to a bank, we had our own challenges with higher historical cost of funds. Also, because we are an early-stage bank, operating expense is high because we have set up 400 branches and 600 ATMs. Therefore, our cost-to-income ratio is also high.



That will naturally come down as we scale up.

## Will the third wave affect business?

It depends on the intensity of the lockdown, if such an event occurs. It is hard to take a position on it now. Hopefully, it will be a smaller wave. During the second wave the globe was buzzing with activity and, therefore,

India's

manufacturing and exports continued. We are hopeful that the growth in our loan collections will stabilize and there will be limited impact from a third wave, if and when it happens.

## Are you seeing an improvement in collections?

In March, when the first wave had ended, early bucket collections exceeded pre-covid collections of March 2020. Then the second wave came, and collections dipped again, but by July collections crossed pre-covid levels. We are expecting our non-performing assets (NPAs) to also

come down to pre-covid levels soon.

## You have exposure to a large, stressed telco. How will you deal with a slip-page like that, if it happens?

We hope they pay, and our repayment is coming up in December. I believe they do have a runway much larger than just a few months and, hopefully, they will bring in investments. India desperately needs

more players in the telecom sector. These are legacy issues. The more important issue is our core model, and there we are doing very well.

## What are your capital raising plans?

The bank is comfortable with regard to capital for the next 12-18 months. The capital adequacy is at 15.56%. Provisions will

begin to reduce, so profits will start growing. And, profits will add to capital. In terms of loan growth, we will comfortably grow at 20% this year with the retail book at about 25%. In India, growth is not an issue. As far as growth is concerned, we are also doing home loans in a big way.

We are hopeful that the growth in our loan collections will stabilize and there will be limited impact from a third wave, if it happens.

**V. Vaidyanathan**  
CEO, IDFC First Bank