Exclusive | Legacy issues behind us, says IDFC First Bank MD Vaidyanathan

IDFC First Bank has gone through a tough phase due to asset quality issues and challenging market conditions. Its numbers now suggest that the lender has addressed most of its problems. IDFC First Bank's profit more than doubled to Rs 281 crore in the third quarter ended December.

In an exclusive interview to *Moneycontrol*, IDFC First Bank managing director V Vaidyanathan said legacy issues are behind it and the lender is on a clear profit track. The bank will focus on wealth management and retail lending and increase its gold loan and microcredit businesses, Vaidyanathan said. Edited excerpts:

You had Rs 2,400 crore of exposure to Dewan, Reliance Capital, then Rs 2,000 crore to Vodafone and others. Are legacy issues behind you?

Yes – let me just say that all those issues are accounted for. Two large toll-road accounts became NPAs (non-performing assets) in the last two quarters, so they are already out in the declared numbers. Now the telecom account paying us in the last quarter is a major breakthrough. I think all major legacy issues are behind us, accounted for or already part of the NPA.

So clearly this is an inflection point…

This is an inflection point from two points of view—one, because we are saying the legacy issues are behind us on the assets side. But even more important, let me say the inflection point that has occurred is with respect to operating profit.

In the December 2018 quarter, Capital First and IDFC Bank combined and our core operating profit was Rs 279 crore. In this quarter ended December 2021, the operating profit has crossed Rs 650 crore. So, the operating profit more than doubled in three years. I think it is a huge statement and shows the power of the business we are building.

How are credit losses looking at this point?

We can safely say that the normalised credit loss is expected to be less than operating profit from now on. This means that we can now safely say that our bank will not have to post a loss ever again. That is a very big inflection point. It's taken us three years to get to this position of strength in operating profit.

In other words, you are now on a profit track?

Yes. Our bank will be profitable from here on is the more accurate way of saying it.

How will this transformation benefit shareholders?

I believe that over the last three years we have set up a really excellent platform and we have gone about this in a very step-by-step manner. First, we addressed the liability side of the bank—we raised deposits and stabilised this side and we made CASA (current and savings accounts) at 51 percent. Number 2, we accounted for all legacy accounts. Number 3, we have now addressed the core operating profit. Therefore, I believe the bank will be on a good track in terms of earnings and profitability. What it translates to, the market will determine.

Are you happy with the way your IDFC First stint has evolved?

I'm very happy because I believe that the foundation is laid now, it is an excellent springboard for the future… With that foundation, the bank can really take off to future growth... Now after getting 51 percent CASA, we can grow the loan book—that's what I mean by saying the foundation is very strong.

What is the next trigger for growth?

The key thing that we should focus upon is profitability. So now the bank, I believe, or let me say, the people should expect to see a strong rise in profit and profitability from this quarter onwards. And we've already demonstrated it in the quarterly results that just ended.

What are the trends in asset quality?

Our gross NPA and net NPA on the retail side have come down to 2.92 percent and 1.28 percent, respectively. We believe retail NPA will come down to 2 percent and 1 percent, respectively.

By when?

We have guided for the next financial year FY23, but we feel that this will probably happen before that. The second thing… is that we are very confident of the underlying portfolio quality that we are building. So, we are guiding for provisions next year to be not more than 1.5 percent of the loan book. That will probably put us in a really good league.

What are the next two, three big risks for you?

All fundamental constructs are in place, so there's nothing that terribly bothers me anymore. Now, it's a steady state growth bank. Next year, for example, that is for 22-23… the loan book can grow about 18 percent to 20 percent and our profitability should improve.

Are you looking at acquisitions?

No, we don’t need to add, we don’t need to acquire anything at this point of time. But there are many businesses which we want to grow. One is the wealth management business. The second is cash management solutions— we want to grow that. We want to grow our fleet card and FASTag businesses as well.

How’s the commercial vehicle and retail loan book looking?

We will want to grow the commercial vehicle business, it’ll also help us meet the priority-sector lending requirements. We will want to grow the home loan business in a big way. All of the businesses, we believe, have a big scope for scaling up now.

What about micro-credit and gold loans?

We want to grow home loans, loans against property and gold loans as well. We have close to about Rs 8,000 crore in the microfinance book even today, but we will grow that also, but more cautiously.

Why so?

During this crisis, the bigger impact was on microfinance. It meets our PSL requirements, but we’ll be more cautious about that.

Has Covid-19 changed your channel strategy in favour of digital channels?

Yes, of course. I think during the last two years or so… the ecosystem has become much more supportive because we can do e-KYC, e-documentation and e-mandate and all that. The credit bureaus in the country are very active. So therefore, credit quality becomes better. Then cashflow evaluation capabilities have also become much better because of technology – our ability to evaluate credit has also improved in the last 2-3 years.

So Covid doesn’t worry you anymore?

No, we should always be cautious. We have to be very careful. But it is also safe to say that wave three, the Omicron wave, doesn’t seem to be seriously affecting the portfolio. Basically, the issue was more about lockdown. It is not about people being sick, it was about lockdown. This time there is no lockdown. So therefore, there is not much impact on the portfolio.

Can you provide an update on the three-way merger with IDFC Ltd and the holding company?

Whatever we have guided publicly, I’d like to just stay with that. What is known publicly is that IDFC Ltd. wrote to the bank and asked for in-principle approval and our bank has talked about in-principle approval. There are a lot of things still to be worked out, so I can’t give any guidance. Beyond that, I don't want to expand.

What differentiates you as a bank from others?

It is about how we do banking. We have made customer-first a very big internal campaign. It’s a very big factor. We don’t charge for things like non-home branch transactions, money transfer, IMPS, intimation SMSes, and many other such charges. So customers with us get good rates, low fees and good service.

What is the customer feedback?

People appreciate it. So we are trying to truly build a bank which is clean banking, clean processes, clean products. So we enjoy customer goodwill. I don’t know whether you are able to understand the value of this yet, but we are making a different bank actually.

In recent years, many banks have had a tough time managing their technology platforms…

Our bank is in a very strong position because we are using contemporary technologies. New types of financial institutions – fintechs, digital lenders – have come up, changing the industry composition.

India needs a lot more players and it’s a good thing that so many players are coming up. Secondly, credit in this country is very low thus far. Credit to GDP at a consumer level – that is personal credit, home loans, car loans, credit cards – that is still only 15 percent of GDP. We can go multiply 7-8 times, it will take a long time to get maturity. So I believe it’s good for India.

We have seen a lot of restructuring under OTR (one-time restructuring) 1 and 2 in the past two years. Do you think this will backfire at some point?

No, it won’t because all that is factored already when we are guiding for 1.5 percent credit loss for the next year.

No, for the industry, I mean.

I don’t know for the industry, but my sense is that at the end of the day, a lot of those businesses normalised and they became okay.