Mr. V Vaidyanathan, MD & CEO – IDFC FIRST Bank speaks to ET Now on Q3 FY22 results

Anchors: Ayesha Faridi, Nikunj Dalmia

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Ayesha Faridi: Let's take stock of IDFC FIRST Bank. We have with us MD & CEO Mr. V. Vaidyanathan joining in the show right now. Vaidya hi, good morning good to have you on the show. Firstly I just wanted to understand how the quarter went by and how the synergies of, you know, transforming retail into digital are really panning out for you?

Mr. Vaidyanathan: Well, I think it is a very good quarter for us. I think all parameters did well. Net interest income was higher; our margin has become come to close by 5.9% which is pretty good. Our core profit was up quite strongly. One of the key things that has happened to our bank was for the last two three years is that core operating profit of the bank has more than doubled. At merger, it was Rs 279 crore. It has more than doubled in three years to touch close to about Rs 650 crore. Overalll, the bank is looking pretty good now.

Ayesha Faridi: Sure, the one thing that I observed though, Vaidya, is that your losses in retail liabilities are still very large. What explains that and do you have visibility on these coming off?

Mr. Vaidyanathan: When we started maybe three years ago, at that point of time, we had a large loan book from IDFC Bank and we had Capital First. So both were assets-assets, nobody had retail liabilities. We had to quickly deal with that issue. So, we went ahead and put out close to 400 branches and 600 ATMs and everything. All that came as a cost of raising liabilities and had to be done.

Now the game forward from here on is that these branches will start becoming productive and we will start getting CASA balances that adds to profitability. We will start adding cross-sell - that adds to profitability. This is the way any bank which it starts up has to incur initial expenses. So you are right. Retail liability still costs us about Rs 325-350 crore a quarter on the negative side but the retail assets side is extremely profitable. You know, we have about Rs 80,000 crore book and by our estimates, we are making between 18% to 20% return on equity on an incremental basis, and that's pretty strong. But this loss on the liability side will come down with productivity.

Nikunj Dalmia: Morning Mr. Vaidyanathan, now that the cross round your balance sheet which historically has been Vodafone, is behind us. For FY23, can I assume that the credit cost at an aggregate basis at an overall basis will start coming down because that changes your return ratios completely?

Mr. Vaidyanathan: Well it completely changes the game. I agree with you in the last couple of years, we had one or the other account coming from infrastructure or whatever. But the main thing you should know is that we should forget this word called 'legacy'. I am very happy to say that I think it's almost all done. Now we are feeling very confident to guide that next year's provisions for the bank will only be 1.5% of the funded assets and that is a really big deal in the development of the bank.

Nikunj: So the broader message from you for your shareholders or for our viewers is that the legacy accounts are behind us. You have expanded a lot and a new credit cycle has started?

Mr. Vaidyanathan: Yes, absolutely that is the message. The key message is how the earnings have increased – now I talked to you about how operating profits has doubled since the merger. The other big thing is we believe that from here on, if one peeps into or look into 2023, we should expect to see two significant developments. We should expect the income to continue to grow, you should expect the bank loan book to grow by maybe 18-20%. Earnings income will grow faster than that and credit cost to come down over this year. So what in our language you call the opening of the jaw, the profitability jaw - I am really looking forward to next year.

I believe it will be a very significant year. I have been through this before in my previous organisation and the organisation before that. It's always like that – in the first three years when you start from a zero base, you have expenses but no income but that curve turns and when it turns, one gets to see the profits coming through. I think 2023 will be one such important year for us.

Nikunj: Not for just IDFC but in general when do you see that this high uptick in inflation could start putting stress on the retail book? I mean that's the concern which we get from a lot of analysts who track financial. They say the corporate cycle is great, SME has come back, but with this kind of an inflation and specially a focused stress from the rural India and the semi urban area, it is a matter of time, retail delinquencies will start. Is that the real worry or has the problem is blown out of proportion?

Mr. Vaidyanathan: Actually, I do not agree with that comment. In the sense, I'll tell you what - 50% of the retail book in India is home loans and in home loans, people have a lot of margin and cushion in the LTV; also even if the interest rates were to go up, most of them are floating rate loans and so usually the tenor of the loan will get increased but the EMI stays where usually they are. So people normally don't default. Now as far as other business is concerned, I think that India has really evolved a lot. People are largely underleveraged in this country. You know the credit/ GDP numbers – so I think it is not that much of a big deal. People are very concerned about credit bureaus these days. Everyone we know is concerned about the credit bureau. They keep looking at it like a hawk. So I think, the overall guardrails in the country have become far better.

Ayesha Faridi: Vaidya, as I dip through your numbers I understand that your infrastructure book continues to remain a drag on your asset quality. As you go on increasing or recognising NPAs, what is the visibility here, when can it snap out of the woods?

Mr. Vaidyanathan: I think it's already snapped out. In the sense that, I make the opening comment that you should forget the spelling of the word "legacy" on the lending side because it's done. We have about Rs 8,000 crore of book now left. But this is the clean book. We have a couple of toll accounts which went NPA in the last few quarters but we believe all that will also come back. So let me just say that don't bother about it anymore and look forward to how the retail portfolio continues to behave from here. Our trends for retail in the last three quarters, the gross NPA has come down, Net NPA has come down. Now we are guiding for gross and net NPA to come down to 2% and 1% going forward on the retail side. We should more focus there.

On the corporate side, we do not have much problem left. In infrastructure, apart from whatever is already disclosed, nothing more is to come.

Ayesha Faridi: Will retail be your high growth segment going forward?

Mr. Vaidyanathan: Yes, and within retail, home loans are growing by 44% year on year for us and you can see that it is not just for us, there's a big growth in home sales in the country at this point of time. So that's a big growth area, yeah.

Nikunj: Very basic follow up question, Mr. Vaidyanathan. Everybody is curious to understand the merger timeline. You have shared it with analysts, but for just for the benefit of our viewers, if you could just walk us through?

Mr. Vaidyanathan: We are not making any more fresh comments on the merger at this point of time apart from whatever is publicly announced, in the sense that Limited has expressed an interest to merge, and IDFC Bank has said that we will look at it positively but that is where it is. Frankly, there is a lot more ground to cover, to work out a lot of details in this case, there are timelines involved. So, it is hard to put a time or details or how the event should take place from here.

Nikunj: I am not trying to put words in your mouth. But, if I say let's say in FY23, there is a possibility, not a probability of this merger going through, will that be a tall order?

Mr. Vaidyanathan: I really cannot comment on that Nikunj. Like I said you know, whatever is publicly announced by the two Boards, I would like to stick with that.

Nikunj: I appreciate that. What are you expecting from the Budget? The curious journalist in me would always try to understand more from you now that we have you on the show. What are you expecting from tomorrow's even, from the budget.

Mr. Vaidyanathan: Well, expectations, I think are pretty straightforward. There is infrastructure – which will be a big deal. I think agriculture will be a big one, rural will be a big one, housing is always a favorite for all Budget makers. That will be a big one. But I think those are expectations.

My own "wish list" is that, I really wishing that, small entrepreneurs up to a certain income – maybe a crore or something like that – should actually be tax free or it should be a progressive tax. You know all the shopkeepers you see on the roads, if all the taxes were nil to start with, if the tax is progressive, it will make a really big deal for the country. And of course, large corporates like us should pay our taxes. So zero, then 5%, then 10%, then 15%, then 20% - all small entrepreneurs will benefit. I'm a big champion of small entrepreneurs and I think that someday, this time or next time, I am looking forward to it.

Ayesha Faridi: Vaidya, always good speaking with you and thank you so much for taking the time out and chatting with us today.

Mr. Vaidyanathan: Thank You. And thank you to Nikunj also. I want to just share with your viewers that you've been watching this bank for next two three years. Thank you for your trust that you have imposed kept the trust. Next two or three years will show you the benefit of the foundation we built. I think it will show in the next two or three year. Thank you very much for that.

Ayesha Faridi: Pleasure is all ours