● **V VAIDYANATHAN,** MD & CEO, IDFC FIRST BANK

‘Home loans are our biggest driver and they will keep growing’

IDFC First Bank is replacing higher-cost borrowings with lower-cost ones and working on branch-level profitability to reduce its cost to income ratio, MD & CEO **V Vaidyanathan** *tells* **Shritama Bose** *in an email interview. In FY23, the bank will focus on boosting profitability, he says. Edited excerpts.*

Q&A

You've guided for a 20-25% growth path. What do you expect will drive this?

It is simple. Home loans are our biggest driver and they can keep growing. We are starting from a small base in the context of India’s size, and in India, growing 22% from a small base is not a big deal. We have strong capabilities for credit appraisal in all our businesses. We are also growing our wealth management, cash management, trade solutions and deposits. All of these can grow at 25% comfortably from our base. And our capital adequacy is 16.8%.

How will you generate the deposits required for this growth?

Last year, despite dropping savings interest rates, our average daily CASA grew from 41.5% in FY21 to 49.5% in FY22. I hope you’ll agree that’s really something.

So raising deposits is not an issue for us, we have proven it. People trust our brand. We have to raise more current accounts. We will focus on it this year. We need to make our branches manage complete customer relationships across assets and liabilities.

Will asset quality of last quarter sustain?

It will get better. We have no more legacy wholesale issues yet to be disclosed. In fact, we expect recoveries from one toll account that is already an NPA (non-performing asset). In retail, SMA (special mention accounts), which is pre-NPA stage, has reduced a lot, so our flow into NPA will be low. In retail, our gross NPA has come down from 4% in March 2021 to 2.6% in March 2022. Net NPA has come down from 1.9% to 1.1%. Also, provisions are down every quarter. In the latest quarter, annualised provisions are only 1.2%. Individuals tend to pay back the moment they get their cash flow back, whether after demonetisation, IL&FS or Covid-19. In India bureau scores are a big deal.

> **We have addressed assets, asset quality, deposits — everything. Now it's only profitability to be addressed. It will happen from this year. You will see a sharp increase in profits in FY23. Our operating profits grew from ₹1,900-odd crore in FY21 to about ₹2,700 crore in FY22, a growth of 44%**

There are concerns around your high cost to income ratio of 77%. How do you intend to reduce cost to income?

It’s the start-up stage of this bank. Other banks have been around for 25-30 years, or unlike us, were already profitable when they got the banking licence. We will soon pay off ₹25,000 crore in loans costing us 8.8% per annum and will replace it with below 5%, that will reduce cost to income. Our credit cards business will break even within two years. That will bring the cost to income down. Our branches will become profitable as we scale up liabilities. That will bring down cost to income. Last year it dropped from 84% to 76%. This year it will drop again. So the cost to income will come down every year from here. Our focus on technology will also help.

What is the key focus for FY23?

Profitability. We have addressed assets, asset quality, deposits — everything. Now it's only profitability to be addressed. It will happen from this year. You will see a sharp increase in profits in FY23. Our operating profits grew from ₹1,900-odd crore in FY21 to about ₹2,700 crore in FY22, a growth of 44%. We expect another similar jump in profits in FY23 and ... in FY24 also. That’s the pace at which the profits are rising at our bank. One day, you will suddenly wake up to the potential of our bank.

Your credit card and gold loan books have seen a big jump. What's the reason for the increased focus on these segments?

We just launched it. We love these businesses. We have given cards to our existing customers, the quality has been very good and we have no DSAs (direct selling agents). Our credit card features are very customer friendly.

Will you do project finance, considering opportunities are opening up?

No.