‘IDFC First Bank on profitability path’

Pre-operating profit has doubled from Q3 FY19 to same period this fiscal: MD & CEO

SURABHI

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IDFC First Bank believes it has laid a very good foundation over the last three years since the merger and its impact is now being seen. In an interview with *BusinessLine*, V Vaidyanathan, MD and CEO, IDFC First Bank, said all past issues on the lending side are firmly behind us and the lender is moving on the path of profitability. Excerpts:

THE BL INTERVIEW

What is the bank’s growth strategy going ahead?

It is very simple. In the last three years, we have laid a very good foundation. We have strong CASA percentage, a stable deposit base and dealt with almost all legacy issues. The key item to address now is profitability and we believe that from the next quarter, people will see profits.

Can markets hope to see increase in profits from here on?

It is already improving, the pre-operating profit has grown over 100 per cent from ₹279 crore in the merger quarter – the third quarter of 2018-19 – to about ₹650 crore in the third quarter of this fiscal.

This growth came despite the massive investments we have made, and opening of 400 branches and 600 ATMs since the merger. We had to do it as we were low on CASA and liabilities. We expect operating profits to increase from here if we begin to scale up the loan book.

Such expansion would mean you would have to incur big expenses. How did operating profit double then?

Our growing retail loan book has strong margins. The net interest margin (NIM) of the bank has already risen from 1.9 per cent pre-merger to 5.9 per cent. The extra 2.9 per cent NIM on an average interest earning asset book of more than ₹1.5-lakh crore gives us over ₹4,000 crore of annualised extra income.

The incremental income flow was strong because of strong margins. Despite investing in branches and technology, the operating profit net of operating expense doubled.

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V VAIDYANATHAN

MD and CEO, IDFC First Bank

How is the asset quality and provisions shaping up?

In the beginning of this financial year, we made a prediction on provisioning requirement for the remaining three quarters, and I am happy to say that all guided numbers are coming correct.

The NPA curve, whether gross or net NPA at bank level, whether for retail or corporate, is coming down and we can predict the trend for the next three quarters. Based on this, for the next year, we are guiding for provisions of only 1.5 per cent which would be the lowest ever in our bank’s history.

What about legacy stressed assets?

That conversation should be history. We don’t expect any major issues on legacy front anymore. We can put behind asset quality concerns and move forward to growth. We have only legacy liabilities at 8.7 per cent, about ₹27,000 crore, but that is an opportunity as we will replace them at lower rates.

The bank has raised ₹1,500 crore of tier-2 capital. What are the plans?

Yes, we are very happy that we raised tier-2 capital for the first time in our bank. If we add this to our capital of the third quarter of this fiscal, our capital adequacy ratio has touched 16.5 per cent. It is quite strong. We have more headroom to raise tier-2 capital and further improve capital adequacy and give us headroom for growth.

Will the retail focus continue?

Of course. We have strong capabilities here honed for a decade now. But it’s not just retail, we also do wholesale banking, CMS, transaction banking, trade and so on, it will begin to grow now. On the retail front, home loans is a very big growth area and so is loan against property. Also credit cards, wealth management, FASTags would be other growth areas.

What is your target for loan disbursements?

In the new fiscal 2022-23, disbursements at the bank level will grow anywhere between 18 and 20 per cent. On the retail book, we expect to grow by 25 per cent year-on-year. We have adequate capital for growth.