

Synopsis

IDFC First Bank, led by V Vaidyanathan, plans to raise capital in FY25 to support growth. The bank’s strong market performance, deposit growth, and focus on loan quality position it for continued success in the financial sector. Vaidyanathan also says that he expects income to grow faster than and by a meaningful number and maybe by 400-500 basis points. That will open up the jaw of profitability.

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Expect a capital call from IDFC First Bank in FY25: V Vaidyanathan



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V Vaidyanathan, MD & CEO, IDFC First Bank, says: “You should expect a call to raise **capital** from us in FY25. Frankly, the markets have been quite giving for us in terms of the price to book. We are well-valued. We are running at a premium to the book. So, therefore, if you raise capital premium, it actually helps existing shareholders because book value per share goes up and also, it will allow the bank to have a stronger capital base and can help us grow in a more safe way going forward.”

Vaidyanathan also says: “We expect income to grow faster and by a meaningful number and maybe by 400-500 basis points, which will open up the jaw of **profitability**.”

As we understand, the big picture is that strong growth continues and the good work on credit cost normalisation has started. Can I say that the quarter gone by was not a bumper one, but things are moving in the right direction?

V Vaidyanathan: Main thing is, for a good bank, you need deposits. The biggest thing the bank has achieved is growing deposits by 42% last year and now our deposits are touching Rs 2 lakh crore for the first time and 78% of our deposits are retail. It is a very big change from 27% five years ago. The biggest achievement is having a very strong growth in deposit, that is a foundation and then, of course, the loan book is coming along nicely on top of that.

A talking point from a market standpoint, is credit cost normalisation. Where is the journey headed there because that is the biggest moving part for IDFC Bank?

V Vaidyanathan: For a very long time, IDFC First Bank credit cost has been very much under control. Even last year, our credit cost on the average loan book was only 1.32%, which is probably the best and as a percentage of total assets, it is just 0.97%. I am really happy to share that our NPA, if you take out infrastructure, is now down to 1.55% and our net NPA is down to 0.4 odd percent. So this is a very important point that we are growing the loan book in a responsible way. Our asset quality is making us proud or happy.

The standard point, like you said, is the deposit franchise. There is almost a war of liabilities. Savings are moving into equity markets. All banks are fighting and even in a competitive environment, if IDFC First Bank is able to grow their deposit franchise at an enviable growth of about 39%, that is incredible. Going forward, how do you see your deposit franchise growing? Can you maintain a run rate of 25% plus for the next 2-3 years?

V Vaidyanathan: Not 25%, 30%. We are very confident that we will maintain that. In any case, it is a need. Anyway, our bank has to fund its growth. We want to fund it all by deposits, we do not want to borrow anything. And to top it up, we also need to pay the legacy bonds of about Rs 7,000 crore or Rs 10,000 crore which are coming up for repayment this year. So, we need money for two reasons, that is why we are going to grow deposits so strongly.

What is your view on the way unsecured loan as a category is moving for the industry and then IDFC Bank’s view because some would say it is a high growth area? But that is also an area where the regulator periodically has been raising concerns?

V Vaidyanathan: We should definitely be very careful. In unsecured, we should be very clear how you are doing it. If you are doing unsecured on the basis of cash flow financing, then you are relatively safer because it is more secure than really through cash flow. In our case, we have this personal credit which is basically salaried personal loans or personal loans or digital personal loans and such products are about 15% of the loan book. We have been moderating it. The rest of the facilities are more in the case of defined end-use, like education loan or consumer durable loan. But where end-use is open, as in the retail personal credit, that number is about 15%. We are keeping it moderate and we are watching credit quality very carefully. The good news is that even in that book, the gross NPA is just 1.5% to 1.6%, net NPA is just 0.5%. So, we are very careful there.

I am going to quote a line of yours which you shared with us two years ago, that at IDFC First Bank, the management has a fetish about NPAs and you are not just careful, you are extremely careful in the way NPAs move. Can I get a sense that you will be able to grow at the current run rate where you already indicated a second half recovery without compromising on your book quality? The NPAs will not go irrespective of what is happening to the growth.

V Vaidyanathan: This is on record, you can take it from me that we are super cautious about this first of all and our guidance to the Street has always been gross NPA of 2%, but our reality is our gross NPA of ex infrastructure running at 1.55%. In fact retail NPA is 1.38% against guidance of 2%, net NPA we guided for 1%, we are running 0.4-0.5%. Looking ahead, I can assure all of you we will be super cautious and we do not expect to even get close to our guidance. We will probably be in the zone where we are today.

If I look at the notes of your call and what you have stated, you are committing to a recovery in the second half and you expect that the first half would be slightly under pressure given that there are some legacy loans which you will have to deal with. When you are indicating about a second half recovery, what exactly are you referring to?

V Vaidyanathan: There is no legacy issue, just to be fair and I just put it clear. First of all, it is not that the first half is stressed or anything like that, it is the way we are building the business. We are building this bank for the long run. I am not looking at quarter-to-quarter hits. Eventually it plays out well. For example, like last year we posted Rs 2,950 crore of PAT.

The previous year we had posted Rs 2,450 crore of PAT. So, eventually numbers are showing up well, but we are building for the long run.

Now, keeping that picture in mind, we were doing digital loans. In digital loans, we have a partnership with some digital partners. We are moving over to a structure where they will start giving us FLDG, like first loss default guarantee, which means the credit cost pertaining to the loans coming up in the second half will not hit our P&L but for that you have to pay up this quarter. So, there is some upfronting of costs coming up and therefore you will see the credit cost more like flat all through the year, but basically the profitability sense, think of it like a first quarter could be flattish, second quarter could take off but Q3, Q4 we are expecting at a PAT level the bank should start posting really handsome profit, let me say four-digit will be achieved by the bank.

In this kind of an environment when every banker is crying about a war of liability, it is incredible what IDFC Bank has achieved. My question to you is that are you achieving this largely because of your branch expansion or is it digital onboarding which is helping you?

V Vaidyanathan: It is not just distribution. There is a lot of power in a brand and becoming a brand is a momentous occasion in anybody’s or any institution’s life. In the last two or three years, we have become a brand. When you become a brand, it attracts money and that is an invisible force; you cannot discount it in terms of number of branches or interest rate, etc. Our bank is getting a lot of goodwill. When our people meet the people who are raising deposits, they bless us and they tell our employees. So, the bank is acquiring goodwill. Of course, we are also growing the branches, but the short answer is that our branches will not grow in proportion to deposit growth. For example, last year, our deposits went 40%, branches did not grow 40%. We expect the same phenomenon to play out next year.

You have expanded a lot in the credit card business. You have expanded a lot in two or three years in branch network expansion. When will the benefits of all that start kicking in? It normally takes two to three years before the real benefits and synergies they kick in.

V Vaidyanathan: Q4 of this year, you should see meaningful contribution from these businesses, that is when we expect the credit cards to stop losing money or almost get close to breakeven. Also, we launched many new businesses. We launched wealth management. By the way, wealth management is growing by 66%. It has already touched Rs 16,000 crore of AUM, like Rs 10,000 crore last year. So that is really coming like a rocket. All these businesses will start throwing cash. We launched a gold loan business last year and that will have its own period before it becomes profitable. We launched prime home loans. It is our job to launch all the businesses keeping the longer picture in mind.

If one looks at your credit current ratios and if you are maintaining the credit growth what you have just promised, can I say that somewhere in FY25 you would be needing fresh capital and there could be a capital call?

V Vaidyanathan: Yes. You should expect it from us in FY25. Frankly, the markets have been quite giving for us in terms of the price to book. We are well-valued. We are running at a premium to the book. So, therefore, if you raise capital premium, it actually helps existing shareholders because book value per share goes up and also, it will allow the bank to have a stronger capital base and can help us grow in a more safe way going forward.

How will FY25 be different from FY24 in terms of product launches, new innovations and new schemes? Is there anything which is on the block from IDFC Bank?

V Vaidyanathan: Yes. FY25 mainly is coming on a very strong base of profitability. Remember, we are almost touching Rs 3,000 crore of PAT. Our bank never saw this kind of numbers in our lifetime. It is the record highest. So, it is coming on a very strong base of profitability. We expect profitability to go up next year. We expect the expenses growth to slow down. Our expenses last year grew by like 28% or 29%. We expect expenses to grow by 20-21%. So, we are going to slow down expense growth.

We expect income to grow faster than and by a meaningful number and maybe by 400-500 basis points, and that will open up the jaw of profitability. That is one big thing. In terms of product launches, of course, we have already launched many. We believe some of these will start reaping benefits of it. We are very proud of our app. We think we will continue to make it a super app. By the way, a super app does not mean super app like people know it but like a superbly performing app. If you have not used it, any of you viewers or yourself, please try our bank account and try our app, it is something very special.

Personally for you, how will FY25 be different? I can see you are looking different already.

V Vaidyanathan: Well, yes, of course. There is a zing in the bank and everybody’s feeling happy and proud about the bank’s achievements. You talk to any of our employees, any of the branches, you will see the buzz. We are feeling good from within and that will reflect in many of the things. There is some joy working in this bank actually, being in this bank.

It must be a great feeling. You left as an employee and almost after 15 years, you came back as a promoter and owner. It must be a great feeling, when you analyse how things have moved for you personally.

V Vaidyanathan: Things have been great. The Indian economy has really done well and some providential stuff of being able to merge Capital First with the bank was a very defining moment. When people use the word legacy, etc, I never use those words in a negative way. It is a big thing in our lives, but I do not use the word like promoters and all that stuff anymore. It is not that I used it before also because nobody has 100% ownership of a bank; you may have 1%, 2%, whatever, so we are here in a fiduciary capacity and we should be respectful of that.