"IDFC FIRST Bank Limited
Q1 FY27 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day and welcome to IDFC First Bank's Q1 FY27 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Saptarshi Bapari, Head Investor Relations and ESG. Thank you and over to you, Mr. Bapari.

Saptarshi Bapari: Thanks, Renju. Thanks a lot. Hi everyone, good evening. Thanks for joining the call. We have with us Mr. V. Vaidyanathan, MD and CEO of our bank, and Sudhanshu Jain, our CFO. So, we'll start with a brief financial update with Sudhanshu and then we can have some words from Vaidya and then we can open the forum for Q&A. Okay? So, I'll hand over to Sudhanshu.

Sudhanshu Jain: Yes, thanks Saptarshi. Good evening everyone. First of all, thank you for participating on a Saturday evening. I will start with, in terms of sequence, I'll start with maybe the business side and then eventually cover the profitability segment. I would say that the business momentum was quite strong during the quarter.

In fact, our customer business, which is your deposits plus your funded assets, that has crossed INR6 lakh crores during the quarter and we saw a Y-o-Y increase of almost about 20% both put together. Individually, if I now talk about loan book, there also we registered a strong growth of 20.6% on a Y-o-Y basis and that book has now crossed INR3 lakh crores to reach about INR3.05 lakh crores.

This incremental growth on the loan side was primarily driven by mortgage, vehicle, corporate loans, and consumer loans. We have given a fairly detailed breakup on slide 29 of the presentation. If I talk of the retail segment, retail, agri, and the MSME book, that was at INR2.4 lakh crores and the wholesale book was at INR64,000 crores at June quarter.

The retail, agri, and MSME book grew by about 18% on a Y-o-Y basis and in wholesale, we continue to power up and there the growth was even stronger at 30%. Just another data point, the MFI book was at INR6,700 crores at June-26 end. We saw a marginal increase as against the previous quarter. Also, another point which I want to put out is that 93% of the book is now covered in MFI through the CGFMU coverage.

With respect to credit cards, the cards in force have now reached 4.8 million during the quarter. The book grew by about 19% on a Y-o-Y basis and was about INR9,600 crores. The spends on the credit card grew at a healthy pace of 22% on a Y-o-Y basis. Moving on to the wealth management business, there the AUM has now reached almost about INR64,000 crores and it grew at 24% on a Y-o-Y basis.

In the same breath, if I now talk of the asset quality, then again on the asset quality, we saw an improving trajectory both across GNPA, NNPA, SMA, and some of those ratios. Just to put out some numbers, the gross NPA ratio of the bank, further improved by 10 basis points from 1.61% reported in Q4 to 1.51%. Similarly, on net NPA, we saw an improvement of 4 basis points to 0.44% for the quarter.

If I now give further details around the retail, rural, and MSME segment, there also sequentially the gross NPA improved by 7 basis points to 1.40% and similarly net NPA improved by 4 basis points to 0.52%. Moving on, on gross slippages, happy to report that here we saw a 2% reduction on a Q-o-Q basis and on net slippages, we saw an improvement of about 4%.

Gross slippages, if we have to compare on a Y-o-Y basis, then it's almost down by 30% and net slippages was lower by about 44% on a Y-o-Y basis. We know that last year initial quarters we also had higher slippages coming from MFI, but even if we exclude MFI slippage for both the corresponding quarters, the decline in gross and net slippage was 14% and 28% respectively.

In terms of translation to the overall slippage ratio, that further improved to 2.49% in the current quarter as compared to 2.68% which we saw in the previous quarter. The collection efficiency of the bank continues to be quite stable now for many quarters; it was at 99.5% for the current quarter. Moving on to SMA 1 and 2 numbers, there we continued to see an improving trend.

The SMA was at 0.77% in Q1 FY27 from 0.78% which we saw in the previous quarter and 1.01% in Q1 of last year. We have given a fairly detailed breakup across segments in terms of how SMA and NPA numbers have fared for us. Similarly in microfinance, I would say things have largely got restored on the asset quality front; here the SMA 1 and 2 normalized to now only 0.71%.

If I now talk of deposits, then happy to report again that customer deposits now is just shy of INR3 lakh crores. It grew by about 16.6% on a Y-o-Y basis and 5.3% on a Q-o-Q basis. If I see total deposits, which is customer deposits plus certificate of deposit, then the growth was about 17.7% on a Y-o-Y basis and 5.9% on a Q-o-Q basis. Within customer deposits, CASA deposits I would say grew the fastest.

So, CASA ratio for the quarter as a result improved by 1% to 50.8% and average CASA ratio stood above the 50% mark at 50.1%. The CASA deposits have now touched INR1.58 lakh crores. So, I would say the another milestone crossed during the quarter was CASA going beyond INR1,50,000 crores.

Moving on to now the profitability section, happy to report that we have crossed profit of INR1,000 crores for the first time and the profit for the quarter stands at INR1,075 crores, which is an improvement of about 132% on a Y-o-Y basis. During the quarter, all operating metrics continued to demonstrate an improving growth trajectory. For example, NII grew by 21.1% on a Y-o-Y basis.

This in fact improved from 15.7% which we saw as a Y-o-Y increase in the previous quarter. As a result, the net interest margin on an AUM improved by 3 basis points to 5.96% from 5.93% in the previous quarter. However, let me point out that the last quarter had a benefit of day count convention of about 8 basis points and in this quarter, we had some benefit on account of interest on income tax refund, which contributed to 6 basis points.

If I exclude these two line items from the individual quarters, then the NIM has shown an improvement of 5 basis points and the adjusted numbers would look like 5.85% going up to 5.90%. This improvement was largely contributed by reduction in cost of fund, which further came down from 6% to 5.96%. Moving on to the fee and other income, here also we saw strong growth. I would say backed by disbursements, which almost increased by 25% plus on a Y-o-Y basis in Q1.

And as a result, the overall fee income increased by 22.9% on a Y-o-Y basis compared to 21.3% Y-o-Y which we saw in Q4. The other streams of fee income, which is your trade and FX, which is your commercial banking and all these related fees also continue to contribute strongly to the fee growth. As a result of the increase in the NII and the fee, the total income for Q1 on a Y-o-Y basis was 21.5% higher versus about 17.1% what we had reported for the previous quarter.

During the quarter, we had a good run on the treasury front, of course that was helped by softening of the G-Sec yields to some extent and hence we were able to get a treasury gain of about INR181 crores in Q1. Moving on to opex, the opex for the quarter stood at INR5,729 crores. This grew by 16.4% on a Y-o-Y basis and the sequential increase in opex, if we exclude the impact of the one-off fraud incident in Q4, then it was 2.3%.

This increase of 2.3% on a sequential basis corresponds to an increase in core income by about 4.6% on a sequential basis. As a result, the cost to income ratio excluding trading gains improved by 166 basis points on a sequential basis to 70.7% and by 310 basis points on a Y-o-Y basis. We have also mentioned in the presentation that the jaw, which is the operating jaw between the total income and opex for Q1 now almost stands at about 500 basis points, which to some extent has also translated into improvement in the cost to income ratio.

As a result of all of this, the operating profit of the quarter excluding trading gains has increased by 36% on a Y-o-Y basis and even sequentially, again here I would exclude the impact of the fraud incident, the improvement was 10.9% on a sequential basis. So, for last two quarters in a row now we are getting an operating profit increase of upwards of 30%.

Moving on to provisions, this reduced by 31.1% from INR1,659 crores to INR1,144 crores. On Q-o-Q basis, if you see it has remained at the same level. Last quarter the actual credit cost was about INR1,143 crores. During the quarter, we had received a claim of INR514.8 crores under the CGFMU scheme against MFI portfolio. Here I would just want to put a data point that we believe that we applied in this quarter and we got it in this quarter, which was quite fast in that sense.

Another point to call with respect to provisions is that we have created a contingency provision of INR515 crores. This is purely I would say voluntary and on a prudent basis considering the evolving macroeconomic and the geopolitical uncertainties and the monsoon related factor.

I would again reiterate that the bank's current asset quality performance remains quite healthy across key retail, rural, and MSME portfolios with delinquency indicators largely stable or improving and hence this provision is purely I would say a forward-looking and more prudent in that sense. In terms of credit cost percentage for the quarter, that further improved from 1.60% to 1.53% during the quarter.

Moving on to the last section, which is capital adequacy and liquidity. The capital adequacy ratio stood at 15.05% at June with CET1 ratio of 13.33%. We had an impact of about 30 basis points on account of ops risk RWA reset which typically happens in Q1 on the CET1 ratio.

On liquidity, I would say we continue to maintain LCR at stable levels, in fact average LCR ratio for the quarter was about 116% and this broadly around our guided range as we have indicated in the earlier call.

With this, I have tried to cover the key numbers; maybe I'll hand over now to Vaidya for his opening remarks.

V. Vaidyanathan: Good evening everybody. Sudhanshu has covered the numbers, so I'll skip the comments on that. The thing is that beyond the numbers what the bank is really building is or what we're trying to build is a really high-quality customer-first bank.

And this goes core to the culture of the bank because when we say customer-first bank, then it's just not a slogan, every policy of the bank, every product of the bank, every way our employees interact with customers, how they give the customers benefit of doubt in the event of a complication or an error of opinion or a difference of opinion, everything has to reflect that.

For example, we hate to put asterisks in our advertisements because we know asterisks, people don't see that and they just jump into the advertisement and they start consuming the product. This happens. For example, even after four or five or seven years of talking about that, even now sometimes when I go to and meet any of our employees or see some responses from our employees to some customers, I find it may not be customer-first.

And they'll have disputed the customer for some small amounts and negotiated unnecessarily. So, I do find such things, but it's a long process but every product we put, we try to bring that in. We try to see that we don't write fees and charges in such ways as complicated languages that customers don't understand. We don't charge fees just because the customer doesn't notice, just because you don't notice I can't bill you.

So, we do, you know, if somebody is selling a mutual fund, we don't just pick a mutual fund that gives us highest commission and sell it to customer. We go and do a deep analysis using AI and find such mutual funds which will give maximum return to the customer. Whether we get 0.7% or 0.8% or 0.9%, 1%, these are all round off numbers, we don't really look and try to maximize that front.

So, this is what I mean by saying that we're trying to really build that and that's one big part the bank is building. It will show in due course; to an extent it is showing, I think that's it's reflecting in the numbers somewhere. But it will also show in due course. I can't surely tell that every part of this is helping the bank in terms of P&L, it costs money to build a bank like this, but this is a great long-term franchise.

Second thing, I'd say that there is governance. I can tell you that even during the most difficult times when we were starting the bank up six or seven years ago when we were posting loss for three or four quarters in a row for those bad loans, we did not have any PPOP at all. In fact, our PPOP was like 0.5%, 0.6%. The credit cost used to be 1%, so really that left us with no profit on the core.

Even then, we didn't find solutions around our situations. We went through that boldly and dealt straight. So, governance, you will not find us lacking. If something inadvertent happens, I don't know, but no one that I know of in our bank, in our Board, among our colleagues, among senior management, anyone would ever talk anything or even suggest something that can go bad on governance. So, you should rest assured.

That means seven years and many of you who know me for 25-30 years would know that we have lived that life like that and will not go. And that should definitely, in good days and bad days, should give you comfort that this bank will deal straight and deal right. The third thing then comes down to technology. I can tell you that tech is a big thing and our bank now for many, many years have been making the right moves on technology.

It's not really the cost. People think tech has cost money. It's not about costing money. It is about building the right architecture, having the right quality of people, and building a stack inside out, customer data platforms, KYC platforms, digital onboarding, payment infrastructure, communications and risk and decisioning engines, API, data streaming, machine learning, artificial intelligence, the whole stack, and UI, UX, and everything.

We really try to, let me say, even customer intelligence, every customer data platform, everything is like, we really put an effort in building that. And customers are using the bank services now, whether using our app, using a call center, I'm quite sure they would have seen the experience.

In fact, when I often go to conferences if I have to speak on a panel etcetera, I often ask people to put up the hands how many of them are customers of the bank and you'll be surprised, I do find quite a few people. So, the point is that we're trying our best to stay in the cutting edge of technology and governance and customer service I told you.

The last thing is finally this has to, of course, translate to numbers end of the day because from the market point of view you track numbers and you should. But my sense is that whatever numbers we'll post, we believe it's coming strong from the core and when it comes strong from the core it is more sustainable. And on that front let me just say that, for the last many years we've been under the pump on the issue of cost to income ratio. I don't deny.

In fact, in the first round I got it wrong because we thought we'll fix it in five years; it's been seven years, we're still dealing with it. But then I just realized that the issue was some amount of income got wiped out because we wrote off a lot of bad loans. And along with that income also went away permanently.

Some amount of cost issues also came from the fact that we were really building, while we may have got the cost income issue wrong which I don't deny I told you I admit. But then there were so many things we got right also, beyond the normal. For example, we said we'll be INR1 lakh crores of retail loans at the end of five years or five to six years; we were sitting at like INR1.7 lakh crores, INR1.8 lakh crores at that period. Today we are INR2.5 lakh crores.

So, like that's like INR70,000 crores, INR80,000 crores more than what we talked about. We talked of CASA of 30%; now we're talking CASA 50%. It was not planned. So, there are many things that, NRI deposits, now we're talking about INR25,000 crores of NRI deposits in the bank. So, we didn't factor for, maybe for so many loans that came this way or that way, we didn't.

So, if we didn't factor for certain bad loans, fine, it's our mistake, I don't deny. But the fact is that starting up a bank there are just so many expenses on compliance, on setting up the ticketing systems, the CRM systems, it's just an expensive proposition. And I must thank you that while in the phase of building the bank, let me say, that the market has given us capital.

We have again our book value per share has gone up from some INR31 or INR32 to maybe INR56 or INR57 now, Sudhanshu? INR56 now. And I agree that all of it has not come from raising internal profits, a lot of it has come by raising capital at a premium.

But even though our return on equity used to be relatively low those days, 5 or 6% on average, but the investors have given us capital at about 1.5% price to book or 1.6% price to book, which has helped us build the networth.

So I don't deny these things, but they've all helped us in good measure, but end of the day net worth is net worth, capital is capital, and book value per share is book value per share. We have it now. Now our job is to grow return on equity. I mean, we strengthened the bank for capital raise, I agree. But now it's our job to, you know, now that we got adequate scale, we believe that the cost-income ratio will get fixed, definitely.

Actually, if you see our cost-income ratio over the last two or three years, initially it came down from 95.1% it was on Q2 FY19, it came down to 85% upon merger because capital first came with 48% and it came down to, blend-blend came to 85%. From 85%, it moved down to 72%, right up to 72.8%. But in FY25, in FY26, two years in a row, it got stuck at 72.5% or 73.5%.

So many people started worrying that, look, maybe they are just stuck and maybe there's no scope for improvement anymore. I think that is not right. It got stuck because even during those days, the FY25 and FY26 productivity gains were coming. But the income was coming down because of the microfinance book, we shrunk it and income went away.

After all, what is cost-income? It is cost divided by income. So income got stuck. I mean, it got stuck when it got reduced because the microfinance book, we reduced it. So let me say, that is a mathematical thing. But there were productivity gains coming at that time, it kind of got obscured.

But now that the microfinance issue is built in the base case, now we start seeing improvement in cost-income ratio quarter-on-quarter. Sorry, let me say, year-on-year, quarter-on-quarter, I can't say for sure, sometimes moving parts happen here or there.

But let me say, year-on-year, you should expect to see and that phase, that for two or three years, we got stuck We believe it will start materially moving down year-on-year now because it's all in the base case now.

So, just moving on from the tech thing and from there, I talked about economics. So on the economics front, the last thing people often say is that, listen, even well-meaning investors, long-term people who think long, they used to often say that, look, we like your model, everything is good. But still, end of the day, until you're posting 1% ROA, really we can't look at you, that's the base case.

Let me just tell you that, when we do our math, we drop a spreadsheet. We know the income we're making, we know cost of funds, we know the margin, and we stretch this spreadsheet into the future. Let me just tell you that this is not going to stop at 1% ROA. Even this time, the ROA 1% that we mentioned, there is got some kind of one, let me say, some amount of income tax, some interest income into it.

Sudhanshu Jain: The treasury gain.

V. Vaidyanathan: Treasury gain, treasury gain. Yes, treasury gain is also there and some benefit here and there. But if you adjust for it, maybe it will come down to about 90 basis points, not 106 as it is looking. But still 90, it's like touch and go.

I remember in a couple of interviews, even with CNBC, during the depth of the crisis, I took an interview, just to assure people that things are well. And that is an interview with Lata Venkatesh, and I was telling her, we'll be in kissing distance of 1% by end of the year. I'm just happy to share with you that we are not taking end of the year, we are already touching kissing distance, we are touching like 0.9%, it's real, real.

And we think that it will move up from here or definitely stabilize from here, probably go up from here. And at least by this year, in fact, not just by the year ending, but hopefully for the year itself, we should be able to post 1% is our belief as far as our eyes can see. So that's a bit of an upgrade. And that's coming in our mind, because credit costs is better than expected.

So all I can say is that all of you have been very supportive for us, we are very sincerely thankful to you. We want to thank all our employees who have worked very, very hard in bringing up this bank from the beginning. And every one of the shareholders who supported us with capital, I can assure you that things are looking up.

And for those who have not yet, who think that probably this is a one quarter thing, I'm pretty sure you wait for one more quarter, one more quarter, you will get a confidence back. So thank you for that.

Saptarshi Bapari: Renju, we can open the forum for the Q&A session now.

Moderator: Yes, sir. Thank you. We will now begin the question-and-answer session. The first question comes from the line of Akshay Jain with Autonomous LLP. Please go ahead.

Akshay Jain: Thank you, sir. Thank you for the opportunity and congratulations on a good quarter. My first question is on margins. So like, if I look at cost of funds, that is still improving with additional tailwinds from SA rate cuts if and when it comes. So that leaves us with the asset mix shift. So is asset mix shift is expected to be so severe that your clean margins of 5.9% this quarter will turn into 5.75% for full year. So that's my first question.

Sudhanshu Jain: Yes, thanks Akshay for the question. Yes, maybe I should respond to this or should you want to continue with all your other set of questions?

Akshay Jain: Anything is fine, sir. Like, maybe you can respond to...

Sudhanshu Jain: So maybe I will respond to the margin question first. So yes, I do agree in the previous earnings call, we had guided for a 5.75% margin, and we have come at 5.9% if we adjust for income tax refund. But now for the year, our expectation is that we could hit margin closer to 5.8%. So in that sense, we now feel that margin could improve from 5.75% to 5.8%.

If we see for this quarter, as I said, the margin was 5.9%, we still got some benefits because we ran a lower investment book. So from here on, into the year, we see the margins could still slightly get impacted because of the asset mix change, which we have articulated in the previous call as well, because we have been growing some segments of business, which could be NIM dilutive, but still make sense in the ROA sense, but still it could be a margin impacting factor.

Second, we feel the cost of funds could stabilize, could stay very range bound around the 6% mark. So that's the second factor and some normalization of the investment book, which may happen during the course of the year. So, we feel that margins could broadly stay around the 5.8% handle now for the full year.

Akshay Jain: Okay, sir. And any sensitivity have you done for how your margins will move in case of rate hikes? Any numbers you have done?

Sudhanshu Jain: So, I have not factored in any rate hike when we are giving these projections, we'll see as it comes by.

Akshay Jain: Okay. The second question is on credit cost. So, again, for 1Q, your credit costs have been around 153 basis points and 1Q is typically the weakest quarter for the year. And if you are beating your guidance of 180 basis points, 190 basis points in 1Q itself. So, is there any scope for bringing down the credit cost guidance? And number two is on the prudential provisions. So, are you seeing any signs, early warning indicators turning negative because of the Middle East war or weaker monsoon?

Sudhanshu Jain: So, on the credit cost, yes, to our surprise, Q1 has fared quite well. In fact, we spoke in the previous quarter, Q4 typically ends to be the much better quarter. Collection momentum is quite strong there. But from an asset quality front, we have seen all of this sort of flowing into Q1 as well.

And we have said that all the asset indicators which we have put on the presentation, SMA, GNPA, NNPA, all sort of product-wise is trending well. We have of course created a contingency provision which I would say is more on a prudent basis. We all know the uncertainties which we are currently dealing with in terms of the geopolitical factors which would play out.

Monsoon, of course, rains have been improving, but still we felt that it would be prudent on our part to take into account some of these risks which could emerge over the later part of the year. So, I would say it's purely a prudent provision. Taking all of this into account, I would say, of course, as I said, there could be still some bit of uncertainty here and there.

But on the credit cost guidance also, while we said 170 to 180 basis points in the previous earnings call, we feel now we could land up more with 150 to 160 basis points on credit cost.

So, that is coming on the back of a much improved Q1 and how we see at least the current quarter and some of these things could play out.

Akshay Jain: Thank you, sir. And on ECL, any numbers on one-time transition and steady-state credit cost?

Sudhanshu Jain: So, on this again, I think we have discussed this question also quite a number of times in the previous calls, but the position continues to be the same. Of course, the final guidelines have come in, we are fine-tuning some of the numbers. But our preliminary sense is that from a capital point of view on transition, there will be two impacts.

Of course, we will be required to keep more capital aside for ECL, but there would be also benefits which would come from a reduced RWA application both on credit risk and operational risk. So, in a combination of both, we feel that the impact on capital could be quite neutral at the time of transition. So, that is our current sense as far as ECL is concerned.

Akshay Jain: Understood, sir. And last question if I may, on FCNR(B). So, if you can share some targets or, you know, what is the current mobilization and how are FCNR costs compared to normal TD costs?

Sudhanshu Jain: So, FCNR we also feel this is a very good opportunity and we want to capitalize to the extent possible. Like if you would have noted, we have given our NRI deposit book, right, which is about INR25,000 crores. If you go and check, the system is about INR1.65 trillion, which means that our share is about 1.7% currently in the NRI deposit market.

Of course, this is a book which we have started growing more so in last two to three years and growing at a much healthy space. With respect to FCNR, we feel that through a combination of leverage and the SBLC structure, we are hopeful of garnering a share of about 2.5% or so. So, that is how we are looking at it. You would have noted that on FCNR deposits, we have announced a rate of 6.75%, which is quite competitive and we feel that is a very good opportunity which we want to capitalize.

Akshay Jain: Understood, sir. Thank you. Those are my questions.

Sudhanshu Jain: Thank you.

Moderator: Thank you. The next question comes from the line of Param Subramanian with Investec. Please go ahead.

Param Subramanian: Hi, good evening. Thanks for taking my question and congrats on the quarter. It's really a strong bounce back from the issues we had in February, so and it's happened so quickly. So, congrats to the entire team on that. My first question is on the opex. So, our guidance is 13% to 14% for the full year. I understand business is coming back strongly. So, are we still sticking to that sort of guidance, 13% to 14% opex growth through the year?

Sudhanshu Jain: Param, thanks for the question. So, I would want to state here that the business momentum continues to be very strong as we see now. Of course, we are cautious of the macro factors which could play out. And our endeavor would be to maintain that opex leverage, right, which is that 500 basis points delta which we were able to achieve in Q1.

So, it all depends on the business momentum what we see from here, but we're quite hopeful of maintaining this jaw even into the rest of the quarters. That's how we are seeing it. So, there could be, I would say a change in both the income side as well as the opex side, but we would want to still maintain this 500 basis points at the minimum.

Param Subramanian: Okay, fair enough, Sudhanshu. Okay. So, the main drivers of our say ROA improved guidance is the 20 basis point upgrade you gave on credit cost guidance and on NIM you said 5 basis point higher. So, those are the main positive deltas you're talking about.

Sudhanshu Jain: Yes, broadly.

Param Subramanian: Okay, okay. And going into FY28, I know it's very early days, but and Vaidya sir mentioned, you know, 1% is not where we stop. So, how to think about say how the, you know, ROA trajectory progresses going into next year?

V. Vaidyanathan: Should increase naturally, no? Should increase naturally because next year will be more see this thing what Sudhanshu pointed out, see if you remember we had talked about 13% to 14% increase in opex with a 18% to 18.5% increase in income. Right, Param?

Param Subramanian: Yes, yes.

V. Vaidyanathan: Yes, that's it. If you see our transcript of the last call also, you'll see that. So, now if this 18.5 is not 18.5 it's 20 or 20.5%, you know, correspondingly you could have some increase in opex also because see the market opportunities are growing and we don't want to be missing out on them, you know, and just stick to one line item.

The point is that this 450 to 500 basis point difference jaw opening. If you cut-paste it into next year also, which we believe it will happen in next year meaning FY28 also, then straightaway it is a cost-income reduction of about 350 basis points straight, just from these numbers. So, and that when you do the maths of it, you'll find it's quite meaningful to the P&L.

Param Subramanian: Sir, one last question if I may, the fraud incident, are we beginning to see any recoveries from that and if so, you know, going ahead where will we be booking that in the P&L if and when it happens?

Sudhanshu Jain: Param, there continues to be I would say progress on this front. If you go by the public news and so on, a few more arrests have been made, ED has been actively looking into the case, they've filed a charge sheet and so on, indicated some amount which could be a potential recovery. But all of this takes a long time, right?

So, I'm saying there is a proper process which needs to be followed like for example going to the PMLA court, filing our claim, then these claims will be assessed for whether it's due to us in the right sense and so on. I mean, lot of work will have to be done. This is a totally I would say a legal process, court process.

Difficult to sort of put out a timeline for this, but at least we are seeing movement on the ground, right? So, it will be difficult for us to sort of commit to a timeline in terms of what recovery could finally emerge from here, but we continue to be quite engaged on this front.

Param Subramanian: Fair enough, Sudhanshu. Yes, very clear. Is there anything at all in the P&L in this quarter as a recovery of anything?

Sudhanshu Jain: No, nothing as of now.

Param Subramanian: Okay, perfectly clear. Thank you so much and congrats once again on the quarter to the entire team.

Moderator: The next question comes from the line of Ankit Bihani with Nomura. Please go ahead.

Ankit Bihani: Yes, hi, good evening, everyone and congrats on the quarter. So, most of my questions have been answered, so I have a question on our tech investment priorities over the next two to three years. So, basically how is the bank leveraging AI and GenAI capabilities across functions and how do you see technology investments increasing from here?

If we look at IT expense as a percentage of overall opex, it has come down a bit from 11% odd to 9% odd now. Even the large banks are operating, you know, at these levels. Could you please elaborate on this? Thank you.

V. Vaidyanathan: It's not actually like I said before, you know, it's not about how much you invest; it's about where you invest them. So, I agree we are like 9% there. The thing is that we've built a really good architecture and a good stack and modern stack and cloud and API-first integration and cloud-native principles and event-driven platforms and microservices architecture and we're hollowing out the core as much as possible.

We have real-time data streaming, you know, it's all being built. I can only tell you that, you know, for example, what people can't see, I think, generally speaking, is that people can see ROA, ROE, they can measure us today, but they don't know the quality that's been built what your eyes can't see, that's, you know, that's below the ground.

On that front, I am giving making my comment to you that it is truly really fantastic modern architecture is coming about in the bank. So in terms of this, it is a big enabler of many of our businesses that we're doing, many of the services we're providing to our customers and naturally there's a payback in terms of revenue and robustness with which the bank will be able to grow.

Which means that, you know, I don't think this bank will stop, you know, will even say three years or four years from now even we're INR6 lakh crores so to say in deposits, INR5 lakh crores in loans, you know, we can continue to grow on this platform. Once platform is strong, foundation is strong, you can grow 20% or more. Who knows? I mean, of course we'll put out our numbers at that point of time, but as far as I can see the platform strong means the bank can grow for a long time.

Ankit Bihani: Okay, sure. And just on the FCNR front, did we highlight we'll be able to capture we'll potentially capture 2.5% of the overall market share, right?

Sudhanshu Jain: Yes, so on the FCNR, I know there are different numbers which are sort of floating around, but assuming say a $60 billion, $70 billion come in, we are hopeful of getting about 2.5% of that pool.

Ankit Bihani: Okay, and till now if you would like to, you know, give out any number how much we have mobilized?

Sudhanshu Jain: It has just started, I'm saying gaining steam. So, yes, so maybe we can give an update next time.

Ankit Bihani: Okay, great. Yes, congrats on the quarter again.

Sudhanshu Jain: Thanks.

V. Vaidyanathan: Thank you. Thank you.

Moderator: The next question comes from the line of Jai Mundhra with ICICI Securities. Please go ahead.

Jai Mundhra: Yes, hi, good evening and congratulations on a strong quarter, sir. Sir, first question on MFI slippages, right? So, I believe I mean we've not given separately, but if you can quantify how much was the MFI slippages and how much was the MFI disbursement in this quarter?

Sudhanshu Jain: MFI slippages was quite low in this quarter and same was actually the case in the previous quarter as well. And hence as I said all the SMA or all these numbers are indicating that sort of back to normalcy when collection efficiency continues to be around that 99.5% which we are seeing in the overall portfolio as well. So, so that's on MFI. Sorry, Jai, what was the second question?

Jai Mundhra: The disbursement, MFI disbursement.

Sudhanshu Jain: So, disbursement if you see if I sort of see the numbers from last year Q1, then then we have seen almost doubling of disbursement as far as MFI is concerned. So, we are hopeful while the book has not grown that very much in last one or two quarters, at least the decline has been arrested.

But through the course of the year, we feel that now since disbursements are picking up and we're hopeful of a quarter-on-quarter increase here, we feel that we could end up or target a book increase of 15% on a Y-o-Y basis.

Jai Mundhra: Sure, this is helpful. Secondly, Sudhanshu, I see that 6 basis points of IT refund, this would translate to roughly around 60 crores. Where do you book it? Because does it go to income interest on advances or does it come on interest on balance with RBI and others? Sorry.

Sudhanshu Jain: It would be the other line item; it certainly doesn't come in advances, but it and it would be the NII line item.

Jai Mundhra: Okay, okay. Sure, because the other is only INR76 crores or something, right, within which there is INR60 crores of IT refund.

Sudhanshu Jain: Yes, number is slightly lower than, but round about that number.

Jai Mundhra: Okay, sure. Sure. Secondly on, you know, customer deposit or CASA, right? So, if I can get the number separately for CA and separately for SA, the reason I'm trying to I mean overall deposits have bounced back and within which CASA has also rebounded by like 7%, 8% Q-o-Q. But if you can qualify if you can give more colour as to, how we have got the traction in SA especially maybe granular and maybe the high-ticket SA post that incident.

Just wanted to trying to understand, we have done reasonably well ahead of your guidance of 5% Q-o-Q deposit growth, but within which if you can, sort of highlight the granularity and maybe the high-ticket this thing.

Sudhanshu Jain: No, so both have been growing quite well. Like if you see the average CA deposits, that has grown by about 30% on a Y-o-Y basis and SA has grown about 25% or so. Of course, SA is the major component in the CASA, right? And the CASA deposits itself has grown about 8% on a sequential basis. So, you can assume that bulk of the growth has come in SA, which has given this kind of a lift.

Jai Mundhra: Correct. And safe to say that it would have been broadly similar to granular and maybe high-ticket, right? The entire episode is now clearly past this, right? And you have had increase in balance in both these buckets?

Sudhanshu Jain: Yes, our deposits on the SA front also quite granular in that sense. So, it's granular deposits which have sort of come in even during the current quarter.

Jai Mundhra: Right. Sure. And last question, sir, just on this ROA. So, just to reconfirm, we are now saying that, you know, what we were earlier saying we have now accelerated that full year we should be able to achieve around 1% ROA, right? That is the correct, if I hear it correctly?

Sudhanshu Jain: Yes, that's what we're gunning for.

Jai Mundhra: Right, right. And the reason why it is higher because of, experience in credit cost, which is much lower and ideally it should stay that way, and then the NIM should incrementally be also be stable, right? These are and the opex thing anyway continues. So, this is the right understanding, right?

V. Vaidyanathan: That's right, that's right. Mainly is the credit cost because on the NII front, you know, I know all of you as analysts track that like closely by the basis points. But, you know, it's roughly we'll be in zone. Roughly we'll be in zone.

Jai Mundhra: Yes. Thank you and all the very best, sir.

V. Vaidyanathan: Thank you.

Moderator: The next question comes from the line of Jayant Kharote with Axis Capital. Please go ahead.

Jayant Kharote: Thank you for the opportunity and congrats on a great set of results. First question, sir, is on ECL. Maybe I missed this, so sorry about this. Have you quantified the impact of steady-state credit cost after the ECL transition?

Sudhanshu Jain: So, thanks Jayant for the question. So, of course, to the previous participant we did talk about the impact which could come on transition as far as ECL impact is concerned, where we said we would require to maintain more amount for ECL, but at the same time we may get some RWA benefits through the operational risk RWA reduction and credit risk and hence the in combination of both of this, the impact on capital on transition could be broadly neutral.

With respect to the run rate impact, there would definitely be some more requirement for provision, but at the same time we could get benefit because of the EIR implementation because both the sourcing opex and the processing fees will be amortized when the ECL is implemented.

So, we feel net of these two, which is your slightly higher provision requirement minus the EIR benefits which could come in, the impact could be quite manageable. Since the guidelines have come in, we are just we are still fine-tuning the numbers. I don't want to put out a specific number here currently, but this is the broad sense.

Jayant Kharote: So, you don't think the ROA expansion journey should be sort of prolonged because of this transition?

Sudhanshu Jain: Yes, not as such.

Jayant Kharote: Great. And finally, sorry to harp on the margin question again. Given that our corporate book is growing very healthily and again at this size it makes sense, it's also bringing a lot of discipline to the credit cost band. But then again looking out next two, three years, how does this play into our NIMs and our ROA ambitions?

V. Vaidyanathan: Actually the NIM of the corporate banking is a little lower than retail. So, the more we book corporate, it will have its share of impact on the on the overall NIM. That's why, you know, Sudhanshu said that as a bank it'll have some impact. But really you should see it in totality the asset quality of the franchise and the credit cost should come down over the years when you wake up in FY28 or FY29 or FY30 or FY31.

Frankly we don't put it like a guidance but we don’t think of a bank as wanting to be running at 1.5% credit cost at that point of time. That's not our vision statement because becoming a larger and larger bank, we cannot be sitting at 2% credit cost even if it's very attractive and NIM attractive and all that.

So, we are planning to move in a direction where the bank's ROA, again don't take it like a guidance like for a specific date or something, but we think that our bank is structurally built for a ROA of more like 1.7%, 1.8% as it builds out. So, yes, and that kind of a number can be achieved even at a lower credit cost, even if we book more of corporate loans.

But I can tell you that it’s been seven years now, there's, you know, there's been no mishap in the corporate loan. Seven years is a long time to prove out our governance and our underwriting capabilities and the amount of diligence we do on corporate loans and our ability to get the business and the kind of proposals. So, we're quite, you know, happy with that the way it's coming.

Jayant Kharote: Great, sir. That's very reassuring. And again congrats for a great set of quarter. Thanks.

V. Vaidyanathan: Thank you. Thank you very much.

Moderator: The next question comes from the line of Anand Dama with Nuvama. Please go ahead.

Anand Dama: Hey hi guys, congratulations for a great set of results.

Sudhanshu Jain: Hi Anand.

Anand Dama: Yes hi. One, is it possible for you to share like how has our institutional deposits moved past the episode that we had? Were there any more withdrawals from any other government or basically it is holding up well and it is growing? Some of that stuff we would like to know about that because that will give a better comfort.

V. Vaidyanathan: Yes, deposits coming very strong. Just I mean, frankly the way deposits came back into the bank, not just came back I'd say frankly we didn't lose deposits in the first place in any material way. I mean, frankly we had a flat quarter. We didn't lose money. And the way it's come back, come back very strong. So, let me just directly at my level let me assure you, there is absolutely no problem on deposits; in fact we are flying actually.

Sudhanshu Jain: Yes, institutional deposits are also quite stable.

Anand Dama: That's very comforting. Secondly.

V. Vaidyanathan: Though our intent, frankly in due course will be to continue to do more of the retail deposits than the institutional deposits. I mean, that's been a strategy anyway, it's not a new strategy as you know it's been like seven years of practice as a strategy. So, I mean in the sense that will be our intent. And we will get there.

I can tell you everyone hearing this call that money is coming thick and fast into IDFC, it's coming very strong and the relationships are strong and the way customers responded to us for so much of bad news all over Twitter and YouTube and all over the place, even then money just stayed. It's like really, we're happy about the way customers believed us during the crisis. Of course, we came out in the open, we took our interviews, we spoke publicly about it and public thankfully supported us on that.

Anand Dama: Sure. Secondly, I think during the call you said margins around 5.8% or 5.9% I couldn't hear that clearly. Because this quarter if you look at a core margins are somewhere about 5.9% if we take out the interest on IT refund. So, it should remain stable around these levels or like where should it settle maybe by over next two, three quarters?

Sudhanshu Jain: Yes, so in margin as you rightly said if you strip out that interest on income it was more around 5.9%. I also alluded to that we also continue to get some benefit from a lower investment book during the current quarter. Some of it could normalize as we sort of move into the ensuing quarters. And we feel that margins which we had earlier guided for 5.75% for the full year now could more look like 5.8%.

So, this change I would say from say 5.9% adjusted for the investment book, the asset mix changes which continue to happen, we need to see how this FCNR plays out as far as the margin is concerned. So, all of this in combination we feel the margins could still be around 5.8% for the year.

Anand Dama: Okay, which means that on a quarter-on-quarter basis there could be some contraction that we should see from 5.9%.

Sudhanshu Jain: Yes, yes.

Anand Dama: Okay. And then I think you talked about the operating jaw opening up. So, what kind of cost to income ratio should we look at in FY27 given that, you know, this quarter we have got some benefit on the other opex front, but I think that was sequentially primarily because of the IPL expenses being not there, right, in this quarter?

Sudhanshu Jain: Which expenses would not be there?

Anand Dama: So, quarter-on-quarter if you look at the other opex actually has come down. Is it more to do with the business seasonality or were there some lumpy expenses in fourth quarter which were not there in this quarter?

V. Vaidyanathan: No, in fourth quarter we had this incident of fraud, right, where we had taken it to the opex line item, right? If you take out that, then the opex increase about 2.3% sequentially. In terms of cost to income translation, even on a sequential basis C to I has improved by about 166 basis points and on a Y-o-Y that's more around 310 basis points. So, we feel that Q1 cost to income which has come at 70.7%, our endeavour would be to take into below 70 during the course of the year. So, that is what it could look like.

Anand Dama: Okay, okay. And then what kind of ROA that we're looking at for the full year in FY27? Should we get closer to 1%?

Sudhanshu Jain: That's what we sort of answered on the previous call, that we are gunning for reaching an ROA of about 1% for the year.

V. Vaidyanathan: Looks like it for now, you know, last time of course like I said we used to say fourth quarter we used to say kissing distance but looks like full year will get there.

Anand Dama: That's great to hear. And any more CGFMU recovery should we expect during the year, any more claims that we have put out or this is for all?

Sudhanshu Jain: No, procedurally it comes only once in a year. So, for the year it's done actually. We could get some similarly into the next year.

Anand Dama: Next year we will get it, right? That's very helpful. Thanks a lot.

V. Vaidyanathan: Not of this amount.

Sudhanshu Jain: Yes, not of this amount, the amounts could be much smaller.

Anand Dama: Sure, sir.

Moderator: The next question comes from the line of Pritesh with DAM Capital Advisors. Please go ahead.

Pritesh: Hi sir, good evening and good set of numbers. Just two questions. One is on channel sourcing. You give the breakup of opex, we see it going down. So, what is the thought on that in the sense are we insourcing more, the outsourcing is slightly lower than what it was and that is also one of the elements of opex being getting down, right? So, anything on that?

Sudhanshu Jain: Channel sourcing expense is about 20 odd percent and it has been quite range-bound if you see the few quarters. Of course, it also depends on I would say the seasonality aspect of it. Q4 typically we see is a much stronger quarter in terms of disbursements and so on. However, Q1 has also remained quite strong.

To your question on capability, yes, we continue to work on these capabilities of insourcing on product by product wherever it's applicable. So, we feel that the benefit also bit by bit is translating somewhere into these ratios. So, but to great extent you can assume this would generally grow in line with the volume growth.

Pritesh: Sir, just a follow-up on that. I think, you know, a year some years back or, you know, a few quarters back we were mentioning that to generate a lot of loans we also incurred a lot of expenses in and around the customer. So, with AI do you see that the expenses which were required for the customer origination and then of course a lot of customer rejection also happened, is that changed for us in terms of opex?

V. Vaidyanathan: See, there are two AIs, okay, so people just to clarify. One is the AI that was classical AI, which was happening even before the arrival of generative AI. And that is a big one. For example, all our consumer durables and two-wheelers and small ticket loans and frankly loans that we give to kiranas and chemists and salons and we have developed scorecards for all of that and these are all machine learning models. And that is also AI.

So, that has been going on for like maybe seven or eight years for now. We started this journey of using scorecards like 15 years ago and it's been evolving and newer and newer technologies since then, but we've been using AI in that sense. So, in that way yes, of course it will continue to improve. The in terms of how much the generative AI is going to be used, everybody knows that every part of the bank, every part of every organization will get affected. So, we are also putting our efforts in that front.

But end of the day, you know, from your point of view as investors, the reason why it's not figured prominently in any of the notes etcetera, it's from your investors point of view, whatever we say in terms of AI it has to show in the numbers. So, we are focusing more on the outcomes in that sense. But at the bank level we're putting our efforts for that.

Pritesh: Right, right, right. So, last question from my side is on PSLC. The annual report is not out, but what would have been done in terms of the agri PSL norms and how much PSLCs we would have bought in for last year and this quarter?

V. Vaidyanathan: Yes, we bought and we lost some money in the sense that it's still a negative drag for us. We're still not a bank which is originating its entire PSL on its own organically. As you know we started from a DFI and we've not yet not yet fully caught up with the requirements. So, because we started from like zero base on building a PSL franchise. So, we are still buying PSL, we are short, and there is a negative like last year was Rs. 250 odd crore, Sudhanshu?

Sudhanshu Jain: Yes, so I'm saying even the rates had shot up in the market and.

V. Vaidyanathan: But overall last year we lost almost how much?

Sudhanshu Jain: Yes, about 250 odd.

V. Vaidyanathan: Last year we lost about Rs. 250 odd crore. Probably I mean, it depends on how the rates will be for this year, we'll take the numbers as it comes. But we're going to be short, we're going to buy, but our attempt is to start building more and more of this organically.

But we've made good headway. I mean, imagine we have 1 lakh crores of PSL in the bank today, probably a little more, about close to 1 lakh crores, 1.2 lakh crores of PSL, okay, didn't exist a few years ago. So, we're making good headway, but we're still short. Net-net we are losing money on PSL purchase. Yes.

Pritesh: Sure, sure. Got it. Thank you, sir. All the best.

V. Vaidyanathan: Thank you.

Sudhanshu Jain: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Vaidyanathan for closing comments.

V. Vaidyanathan: Yes, thank you. Thank you very much. Thanks Sudhanshu and Sapta and everybody and to everybody who took this call. So, we look forward to continuing our work like this and certainly after two or three quarters even those of you who are on the fence will get confidence in us. Thank you.

Sudhanshu Jain: Thank you everyone for joining.

Saptarshi Bapari: Thanks everyone for joining. Have a nice weekend. Thanks.

Moderator: Thank you. On behalf of IDFC First Bank, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.