



“IDFC First Bank Limited  
Q3 FY '26 Earnings Conference Call”

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**MANAGEMENT: MR. V. VAIDYANATHAN – MANAGING DIRECTOR AND,  
CHIEF EXECUTIVE OFFICER – IDFC FIRST BANK  
LIMITED  
MR. SUDHANSHU JAIN – CHIEF FINANCIAL OFFICER  
AND HEAD OF CORPORATE CENTER – IDFC FIRST  
BANK LIMITED  
MR. SAPTARSHI BAPARI – HEAD INVESTOR  
RELATIONS AND ESG – IDFC FIRST BANK LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to IDFC First Bank Q3 and FY '26 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 star then zero on your touchtone phone.

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

**Saptarshi Bapari:** Hello, everyone. Thanks for joining the call. Today, we have Mr. V. Vaidyanathan, M.D., CEO; and Mr. Sudhanshu Jain, our CFO. We'll start the call with commentary, opening remarks from Vaidya, followed by an update on financials and business parameters from Sudhanshu. Post that, we'll open the forum for Q&A.

So I'll hand over to Vaidya for his initial remarks.

**V. Vaidyanathan:** Good evening, everybody. Thank you very much, everyone of you, for joining us, and with -- here is Sudhanshu and Saptarshi. It's exactly 7 years since the time the merger happened. December 31, 2018, is when we put together our first financials. The merger actually was announced to the markets on 11<sup>th</sup> December 2018, but the first quarter financials were 31<sup>st</sup> December.

So, it's 7 years have gone by. So it's a good time for us to give a quick brief about the business model of the bank, as of 31<sup>st</sup> December '18, when we started, we had a total deposits and borrowings in the bank of INR 1,18,000 crores.

And of that INR 1,18,000 crores, INR 10,400 crores was retail deposits. Rest INR 28,000 crores was wholesale deposits, INR 22,000 crores was certificate of deposits and borrowings was INR 57,600 crores.

So you can see that a good portion, which is wholesale deposits, certificate of deposits, borrowings had to be repaid on due dates. And, therefore, the first priority of the bank at that point of time was to raise deposits because there's a large amount. This is really very unlike any other non-bank finance company, small non-bank finance company converting to a bank because it doesn't start with such a situation.

So therefore, think of it like a DFI converting to a bank, which is what our bank is, that too a large DFI or a midsized DFI, comes with this kind of starting point what I just described. So let me just say the first thing the bank did was to raise deposits at a very serious pace. And to give you context for 4 quarters prior to the merger, the total deposits raised from the bank was INR5,300 crores of retail deposits.

So obviously, with that pace, we were not going to repay INR 79,000 crores of these kind of monies even in 2 or 3 years. So, that is the reason you might notice that our bank's liability franchise is probably among the more developed ones because that was the weakest muscle, and we had to build that very quick.

So I'm happy to say that since then, the bank has really developed a good mobile app. We put out 1,000 branches. We developed savings account propositions, current account propositions, startup banking, NRI banking.

We put out a technology stack, brand positioning, hyper personalization engine, analytics, technology, service center and we made customer service, the customer first being like the almost front and center about what the bank is all about, that kind of positioning, then made the culture of the bank from top to bottom to think like that in terms of customer, made products about pro customer and launched commercial banking and reset our corporate banking, all that kind of stuff and relationship manager.

So net-net, we developed an entire franchise and also supported it with a 7% interest rate on savings accounts. Now it's not that we are very proud of raising money at 7% savings account. Market was giving 3% or 4%. It just had to be done. And in any case, it was cheaper than what we were otherwise raising.

Our existing borrowing was like 7.8% of the cost of funds at the bank at that point of time. So the point is that having raised serious deposits, all of you are happy in hindsight to note that we honored every bit of the transaction that were due.

We brought on credit deposit ratio from 137% to 94% now. And frankly, it sounds like 137%, but if you note that the bank also had a lot of money given out in the form of investments which is also effectively credit. That is like 169%. So that's now down to 96%. So things started structurally became much better. So having fundamentally structured the bank and settled the liability issue, which frankly is the biggest issue for the bank to settle, the bank along the way started cutting deposit rates. So let me say, in my scheme of things to pay off dues, obviously becomes priority number one.

Then of course, second priority is then fixing the cost of funds. So I'm just happy to share with you that progressively since then we have been bringing down cost of funds from 7.8%, which was the cost of funds as on 31<sup>st</sup> of March 2019, the first quarter after the merger. And frankly, that is the same rate all through the next 4 quarters also, 7.8%.

We have brought it down today to 6.11%. So I'd like you to note, this is a reduction of 169 basis points. I'd like you to just pause for a minute and think about what the cost of funds of the mid-tier banks were at that point of time, mid-tier banks, and we all know the mid-tier banks.

The mid-tier banks, when we were raising money at 7.8%, was at 6.3%, so we were paying as high as small finance banks to start with, the fact. So we were paying 150 basis points more than mid-tier banks. I'm happy to share that the mid-tier banks' cost of funds have now come down from 6.3% to 6.09% and IDFC Bank cost of funds have come down from 7.8% to 6.11%.

So just in 7 years flat, we have not only raised serious deposits over INR2 lakh crores, with which we settled our entire, let me say, the upcoming maturities of that scale, but simultaneously, we have also brought down cost of funds. And now we have become at par. So we're basically paying two basis points more than average of mid-tier banks.

Mid-tier bank 6.09%, we are at 6.11%. And we believe that end of this financial year, the fourth quarter, because recently, we have cut the savings account rates, that full impact will come through this quarter.

So we'll come down below 6%. So the transition to a low cost of funds is a journey that had to be done. But you can see from the numbers that we are firmly on that path. And that, in turn, opens up the new areas for doing financing. Obviously, in the raising money at 7.8%, and the kind of segments you lend to are more the higher yield and higher credit cost ones.

But obviously, now with these kind of rates, now we are as competitive as any other good quality mid-tier bank. And hopefully, as the years go along, we can even get better from here. Now I'd like to share some very precise numbers to you. What was 7% we were paying up to INR200 crores. And from INR200 crores to INR750 crores, we were paying 8.5%, whatever it is, it is.

It is not something we're proud of, but it is. Today, we have brought down our INR0 lakh to INR1 lakh bucket from 7% to 3%, that is 400 basis points reduction. The INR1 lakh to INR5 lakh bucket, we have brought by 200 basis points from 7% to 5%. Above that, we are paying 6.5% and above INR10 crores, we are straight dropping it back to 5%, 4% and so on.

So net-net, we have structured this in such a way that large ticket bulk money does not come to the bank. If it comes, it will come at really low rates as any other big bank would have given. And then we are basically trying to accumulate money more in the smaller ticket ones. Not really small, like less than INR50,000, etcetera. That rate is 3%, but maybe in the zone of the INR1 lakh to INR5 lakh kind of rates.

Similarly, on the term deposit, we brought it down, and then as a result, the cost of funds for the bank has come down. Now I would like to quickly then move this conversation to share with you what this does to us on the lending side with the reduction of rates.

So on the lending side, think of it like on the personal finance front, we think of it like three categories of financing. One is where we lend at about 18% to 24%, and the cost of credit is like could be between 4% to 6%, maybe 3% to 6% depending on products, then there is the products like your products which are where you lend at about 14% and credit cost is 2% to 3%.

And then there is the products which are where we lend at 8% to 9% like mortgages, loan against property, etcetera. And there the credit cost could be like as low as 0.5%. Similarly, on the business finance front, same logic.

We do lend at people at sectors is 20%, 25%, which is credit cost of 4% to 5%. We do lend at segments with 10% to 14%, credit cost 3% to 4% and then we do lend at 8% to 9% with credit cost of 0.5%, which is the loan against property and home loans, etcetera.

So net-net, the combo-combo combination of this mix-mix that we do as a strategy for the bank, we aim to get a credit cost of 2%. Now I'd like to share with you what the real numbers of credit costs are for the last 5 years. And basically 5 years our gross NPA, net NPA of the bank really has been under 2% and under 0.5%, 0.6% for really very, very long time, you know the numbers. But all of us know that gross net can be managed can be handled by write-offs and the net NPA can be write-off provisions. So write-off and provisions we take it as one family.

And therefore, we'd like to specifically call out credit cost. On the credit cost front, we'd like to specifically point out that any of your analysts can do the math, if you take FY '21, '22, which is the peak of COVID that was raising, wave 1, wave 2 was happening. Then the FY '23, '24 were benign periods, then FY '25 was hit by microfinance. FY '26 still have a residual tail effect of microfinance going on.

All put together, good days, bad days, all averaged out through the cycle, our credit cost is 1.95% on funded assets. So you can do the weighted math for yourself. It is 1.95%. Now a 5-year period, 1.95% should give us comfort, should give you comfort that the combination of products we talked about is giving us that kind of credit cost. And by the way, the 1.95% of average funded assets as average loan book translates to 1.36% on average on assets, just to mark the distinction there.

Now we'd like to then say what is the risk-adjusted net interest margin for the bank. This is important to note, risk adjusted. Now we've done analysis we'd like to share with you. For our bank, again, look through 5-year cycle, all put together, good days, bad days, our NII by assets is 5.65%. And for 5.65% of assets, credit cost on asset is 1.36%.

So that translates to 4.3% is our risk-adjusted NIM and if you take this number for top banks, it is basically 3.93% is NII by assets, credit cost is 0.58%, and that is at 3.35%. The point is that we do have higher credit cost, that's a model, but the income is also higher, but risk-adjusted by running 4.3% and mid-tier banks are a little short of 3%.

So if the bank's model is fundamentally so strong and the numbers are intact to you, then how is it that the return on assets is 0.5%. So this is one people tend to sometimes tend to think of this that look, if your return on assets is low, then there must be some problem with your business which we should look into. So this 4.3%, if it's a risk-adjusted income, I'd like to then share with you that this is obviously going ahead in building the bank. I mentioned to you, this is a domestic financial institution with a large balance sheet, suddenly raising deposits and trying to retire liabilities.

So we want to just share with you that this entire capability that we built of this deposit franchise that we're building, this obviously will build scale. And as of now, it's touching something like about INR 2.8 lakh crores. In the next, maybe we are hoping the next few years, let's call it, 4 years or 5 years, depending how it goes out, this will be INR 6 lakh crores. And at that point of time, this breaks even. And then whatever return on assets of the lending side translates to the P&L straightaway, okay?

Now I would like to finally close this by giving a quick input to you on how our operating expenses as a percentage of the book is today and what we expect it to be in a normalized way. And this is important to understand because again, these books are still under build-out mode. So our cost-to-income ratio for the lending side is 62.3%, on the retail lending side. And we believe it will come down to like the low 50s just with scale. Our wholesale book, the cost-to-income ratio is running at 36%. We believe it will come down to 30% with scale. And our credit cards is running at about 97.5%, which will come down to about 70% with scale. And the retail liabilities is running cost-to-income ratio about 149%, which will come down to about 100% with scale. So what is the combination of the 73%, 74% that you're seeing here, we believe with

scale, it should come down to about the mid-50s. So if you do the math, you'll get there. And none of these numbers are unrealistic. We believe these all should be achieved with scale.

And therefore, at this 55%, 56%, if you plug that back into a business model, you would see that the ROA of this bank will start going to about 1.6 odd. And then rest of the equation will become like any other good bank posting that 1.6% 1.7% ROA and the life is great and life moves on from there. So this is the long and short of the entire business model.

Basically, if the bank is making good money on the earnings side, not making money on the liability side or there's a loss, and as they scale up, the cost-to-income ratio comes down and cost comes down, and you will find a good bank and you'll find the numbers coming through. And then it's business as usual and life moves on and then the challenges and successes of any other bank as it were.

But it does take 10 years to build a bank. That much I'm realizing and certainly takes 10 years to build a liability franchise when you convert a DFI to a bank. Like I said, if it is an NBFC, if you got a bank license, that would be a much easier life. But if you're NBFC tied with infrastructure DFI, which is 3x your size, remember, Capital First was INR 25,000 crores on books. IDFC was INR 75,000 crores on books.

So you walk the path to get the bank license, you pay this is a part of building it out. So, this will land very well in our opinion. The business model is strong. It's very solid. I read out the numbers to you.

And with this business model with the kind of margins I told you, moment when we fix this cost-income ratio, it is going to fly as well as like as any fantastic bank. And in fact, more so because the bank has actually built rather a slightly differentiated model on the lending side. This is not a regular model just built on technology.

So we've built many, for example, in the last month of October alone, IDFC gave out close to about 1.3 million to 1.4 million loans in 1 month. Obviously, this can't be done through the human people sitting and calculating incomes and all that. Each of these loans had identity check, bureau, fraud check, KYC, mandate, stamping, registration, and everything is electronic. So that is a very special capability bank has built. And similarly, on the deposit raising front, we have developed capabilities for personalization, hyper personalization and so on.

So that is the kind of capability the bank has built and with arrival of technology, cost is also coming down and you get the drift. So therefore, we should look forward. And now, frankly, this picture I painted was from a larger picture that we're painting that they're looking forward to in the many years because the business model is looking more stable to us right now.

We're looking quite hopeful for the upcoming Q4, Q1, Q2, Q3 of next financial year. We are looking at it with confidence because now I think with the microfinance issue behind us, rest of the model is anyway good and it's just proven by coming out of the cycle. So thanks very much. Over to you, Sudhanshu, for the quarter details.

**Sudhanshu Jain:**

Thanks, Vaidya, and thank you, everyone, for joining on a Saturday. I will start with outlining a few key financial numbers for the quarter and the sequence would be largely deposits and loans, and then I will talk about asset quality and finally, profitability.

On the deposit front, we saw a strong growth in the deposits. Deposits, in fact, has grown at 22.9% on a Y-o-Y basis to reach about INR2.9 lakh crores. If I talk on customer deposits, then the growth here was about 24.3%, and this now stands at about INR2.83 lakh crores.

Further to add the 9-month average customer deposits have grown strongly at 25% on a Y-o-Y basis. Within deposits, the growth primarily came from CASA deposits, which I am happy to report that it has touched INR1.5 lakh crores in December with a strong Y-o-Y growth of 33%. Here also, if we see on an average basis, then we saw strong momentum, and this growth has been about 32% on a Y-o-Y basis.

This has been led both by CA and SA, and we have given some numbers in the presentation. CASA ratio as a consequence on end-of-period basis, inched up to 51.6% and average CASA ratio was about 50% for the quarter.

On an average basis, CASA mobilization accounted for about 75% of the incremental deposits mobilized during the current quarter. Vaidya talked about that we saw a reduction in cost of deposits by about 15 basis points. And similarly, cost of funds reduced by 12 bps during the quarter.

This was largely driven by FD repricing and strong CASA mobilization, which I mentioned before. During the quarter, we have added about 25 branches, which takes the total branch count to about 1,066 branches. Even on an LCR front, the retail deposits as per LCR was strong at about 64.7%. And it almost stacks like the big banks, if you go and check out on that ratio.

Talking of our numbers, which would speak of granularity. Our CASA plus TD, less than INR5 crores was at 83% for the quarter, vis-a-vis about 82% in the last year at the same time.

If I now talk about loans and advances, then there also we saw a strong growth of 21%, and that has reached about INR2.8 lakh crores. We saw sustained and healthy growth across mortgages, vehicle loans, consumer loans, MSME loans, wholesale loans. These all collectively accounted for 89% of the total increase.

Needless to say, this growth also came on the back of a festival period sales, which further got a boost on account of the recent GST cuts. If we talk of MFI now, that book is at about INR6,657 crores at December end and now comprises about 2.4% of the total funded book. We saw the pace of decline reducing in this quarter as disbursements have started picking up slowly. From an insurance coverage point of view, the book is now 81% insured vis-a-vis 77% in the previous quarter.

Moving on to credit cards. The credit cards in force for the bank has reached 4.3 million mark during the current quarter, and the book has now reached INR9,100 crores. The credit card spends were also strong and for the 9-month period, has in fact increased by 35% on a Y-o-Y basis. On the wealth management side, the AUM continues to grow at a steady pace of 31% on

a Y-o-Y basis, and that book has now almost touched about INR60,000 crores. I move now to the asset quality.

We saw an improving trajectory across NPA and SMA ratios during the quarter. If I start with NPA, then the gross NPA ratio of the bank improved by 17 basis points. to 1.69% from 1.86% in Q2. Similarly, the net NPA ratio of the bank stood at 0.53% compared to 0.52% in Q2. Some further breakup in terms of NPA for retail, rural and MSME segment.

There, the gross NPA ratio also sequentially improved by 18 basis points to 1.55%. Moving on, the gross slippage ratio. The gross slippage declined during the quarter by around 7% and the net slippages improved by 9% sequentially. We saw a reduction in MFI slippages. Further, if I talk of gross slippage ratio ex MFI, that also was lowered by about 30 basis points during the quarter sequentially. In terms of collection efficiency, we continue to see a healthy trend ex MFI.

On the early buckets, the collection efficiency has been steady at 99.5%. Even for MFI business, the collection efficiency for the quarter has now reached close to the pre-crisis levels of 99.4%. The SMA of the retail, rural and MSME book also improved to 0.88% in Q3 from 0.90% in Q2. In microfinance portfolio, the reduction was slightly sharper, it reduced by about 27 bps. And in fact, the SMA pool has come down by 33% sequentially.

So in essence, both on SMA, NPA, we have seen a strong set of improvement during the current quarter. Moving quickly to profitability. We have reported a profit after tax of INR503 crores, which is a sequential growth of 43% and 48% on a Y-o-Y basis. Profit for 9-month period stood at INR1,317 crores. NII for the quarter grew by about 12% on a Y-o-Y basis. And in fact, this growth has improved from 6.8% which we reported in Q2. This was also led by an improvement in net interest margins, that on an AUM basis improved by 17 basis points and was at 5.76% in the current quarter.

Similarly, on the fee and other income side, we saw a strong growth, some also led because of, I would say, the stronger book growth. Here, the fee income grew Y-o-Y by 15.5% and sequentially, that number was 10.5%. We made trading gains of INR96 crores in the current quarter compared to INR56 crores in the previous quarter.

If I now move on to opex. The opex growth was 13.4% Y-o-Y for the current quarter. In Q3 FY '26, we have taken additional impact of INR65 crores through the P&L on account of the New Labour Code. Excluding this impact, this 13.4% would stand reduced to 12.1%, and it is slightly lower than the 12.5%, which we reported in Q2.

If I talk of operating profit, including trading gains, that increased by about 8.2% on a sequential basis. And on excluding trading gains, it improved by about 6.2%. Moving on to provisions. This reduced by about 3.7% from INR1,452 crores in Q2 to INR1,398 crores during the quarter. Overall credit cost percentage improved by 19 basis points to 2.05% during the quarter. Excluding microfinance, the credit cost for the overall loan book was at 1.99% and was roughly 10 bps better than the previous quarter.

In line with improvement seen in the SMA numbers, bank has utilized a microfinance provision buffer of INR75 crores during the current quarter, which is a similar amount, which was utilized

in Q2 as well. On a cumulative basis, INR150 crores has been utilized during the current year, and the bank continues to carry forward INR165 crores as a contingency provision.

Moving on to the last section. On the capital adequacy, the capital adequacy, including profits for 9M was at 16.22% with CET1 ratio at 14.23%. During the quarter, CCPS of INR7,500 crores were converted into equity, and these ratios do incorporate the effect of this conversion. Average LCR deposits were also quite stable and healthy at 115% for the quarter. This is broadly within our guided range.

With this, I have broadly covered the key financial numbers, and we can take the questions from here on. Thank you.

**V. Vaidyanathan:** Thank you, friends. Please take over and ask your questions.

**Moderator:** Our first question comes from the line of Akshay Jain from Autonomous Research.

**Akshay Jain:** Congrats for a good set of numbers. Sir, I have three questions. Starting with margins. So how should we look at the margin movement this quarter? So margins have improved by close to 17 basis points quarter-on-quarter.

You indicated that cost of funds have dropped by 12 basis points. So what other factors are contributing to the margin improvement and how should we expect margins to go incrementally? And what proportion of your term deposits are yet to be repriced? My second question is on SA rate. So now that you have started to cut SA rates, so should we expect IDFC to be more open to SA rate cuts in order to protect margins?

So is that the thought process going forward? And lastly, on asset quality, so last quarter, you had indicated that for the full year FY '26, your credit cost guidance was reiterated at around 2.1%, which meant that it is close to 2.05%, 2.1% this quarter. While slippages have declined, PCR has also dropped by 3 percentage points. So could you provide some guidance on how should we expect credit cost to trend from here onwards.

And on segmental, credit card SMAs have increased quarter-on-quarter. Anything to read over here? And even mortgages and MSME GNPA's have increased by around 25 to 30 basis points over the last 3 quarters. Anything worth highlighting over here? So these are my questions.

**Sudhanshu Jain:** Yes. Thank you for the questions. I think you have asked a series of questions, but we'll make best attempt to answer all. On the margin front, yes, out of that 17 basis points, as you said, 12 bps came because of the reduction in cost of funds. I would say about 2 to 3 bps came because the CRR requirements were lower during the current quarter.

Last quarter, the CRR was broadly at 4%. This quarter, it was reduced during the quarter to about 3%. So that gave us some benefit. Third, I would say is that we got capital in the mid of the quarter last quarter. And hence, we saw some full impact of that also sort of playing out by a few bps. So that essentially is the bridge for the margin increase of 17 basis points. The next question was on SA rates.

**V. Vaidyanathan:** Yes. On SA rates, basically, yes, I mean, you can see we've cut at least in the bulk bucket, the biggest bucket that we had, INR5 lakh to INR10 lakh bucket, we cut it by 200 basis points

straight. So we'll watch. We feel that this will pass through comfortably in the sense we don't see any outflow in a serious manner, etcetera, because we believe that we are supported by good service levels and brand and all that. So we will keep a good eye out for this for an opportunity to reduce it.

The key thing to watch out for IDFC is the thing that, it depends on the growth that we need because end of the day, if our balance sheet has got to grow by this order of magnitude, say, about 20-odd percent, it could be anywhere in that zone, let's call it, 18% to 21%, something in that zone.

Then correspondingly you need to raise deposits. So we will monitor this and this is to be seen in the context of how much funding we will really need and what kind of branch architecture or physical architecture we need to support it.

In other words, for example, let me put it like this. Theoretically, not just as a thought experiment, if this bank did not have 1,000 branches, they had 2,000 branches. right? And we had incurred the cost of that line. Then we don't need to pay even the current rates, we could have cut it by 100 basis points probably.

So you're paying through this route or that route, right now, we're running less number of branches for the kind of deposit we raise. So it appears we pay more on the rate, but end of the day, we're running less branches and therefore incurring less cost there. So we got to pay for it through one line or the other, either through expense line or the interest line because we're still in the phase of building out. But we'll keep a very close eye on this and we'll balance the situation.

**Sudhanshu Jain:**

Yes. Maybe I'll take a few other questions, which were sort of put out. On the credit cost, yes, we have come at about 205 basis points for the current quarter. And our guidance in the earlier call was about 210 basis points. We are quite hopeful that Q4 also should be strong on this front.

And we are hopeful that we will still try to get close to that number. So that's on the credit cost front. And in terms of PCR, it has marginally come off. But if you take into account the contingency provision, which we still hold, then the PCR is about 72.7%. So we feel quite comfortable as far as the PCR is concerned.

Your last question was on the SMA increase in credit card. There also, if you see last 2 or 3 quarters, it came down in the last quarter. It has marginally gone up. We feel quite comfortable on this front and hence, nothing specific to call out on that front.

**V. Vaidyanathan:**

And frankly, on this last point that Sudhanshu answered, I don't know if you've noticed or not, but we disclosed a product-by-product SMA and both SMA-1 and SMA-2. And we also give it by product by quarter. So you can see the full trend out there.

So you can see that most of them are in the zone, like almost every product is flat, plus/minus 20 basis point here or there, maybe 10. So every product is flat. So you can get good clear look through visibility of what's happening underlying in the portfolio.

- Akshay Jain:** Understood, sir. And on the MSME and mortgages, there the GNPA's seem to have inched up by 25 to 30 basis points over the last 3 quarters. So anything to read over there?
- V. Vaidyanathan:** No, no, nothing to read out there because, if you see the mortgages also, broadly it is flat. What's happening is also that the books are also not growing at the pace, every business when you start, they have an aging process. And finally, they age and they stabilize. So the mortgage running at SMA of 0.54% in itself is a pretty low number. In fact, last quarter was 0.54%.
- The quarter before that 0.49%. It's like normal aging that's happening of the portfolio. So, in absolute terms, they're like absolutely safe. They're doing well.
- Akshay Jain:** Understood. Sir, any credit cost guidance for next year?
- V. Vaidyanathan:** It should come down actually. This at least the next quarter also should come down at least when we're looking at the numbers and analyzing them, not just in percentage terms in credit cost but in absolute terms also, we see it coming down next quarter we think, yes.
- Sudhanshu Jain:** Yes, because the MFI problem we feel is, by and large, done and dusted. Of course, the normalization of credit cost may still take 1 or 2 quarters. It's beautifully coming down every quarter. So definitely next year, we should see an improvement in the credit cost.
- V. Vaidyanathan:** And I also pointed out to you, I don't know if you got that or not, our bank's credit cost has been 1.95% of average book in a look through the cycle. 5 years is a long period. So as I told you, I suppose on average assets it is 1.36%.
- So we should come back there because the crisis is behind us, no new -- I mean, of course, in banking, we should always watch out, God knows what's around the corner, we should be very careful. But for now as far as our eyes can see, next quarter, next year, we should come back to those levels or probably a bit better, hopefully.
- Akshay Jain:** Maybe better than 1.95% because our mix has improved over the last few years.
- V. Vaidyanathan:** Hopefully. And yes, that's true. I mean, we should hope so because subsequent years, mix should even look better. So at least you should expect from us, we say 2% so that all of you are anchored to particular number because that's model. But hopefully, if you take FY'27, FY'28, FY'29, FY'30, it should be even lesser than that, but who can talk that long, we should play it by the ball.
- Akshay Jain:** And I guess, we missed on the margin guidance. So how should we expect margins to move? That's the last question.
- Sudhanshu Jain:** Yes. So if you remember, for Q4, we had earlier guided that margins could be upwards of 5.80%. We would slightly want to revise that guidance upwards to 5.85%. This is also on account of the SA rate reduction which we have done, which Vaidya talked about. That should give some benefit. So we expect the margin trajectory to improve in the next quarter.
- Moderator:** Our next question comes from the line of Piran Engineer from CLSA Limited.

**Piran Engineer:** Congratulations on the quarter. Just getting back to this SA thing, right, like V.V. last time when we had this con call, you said you are a bit cautious about cutting SA rates because you think the same customer will then go and put in TD and you were debating with your colleagues out there as to what to do...

**V. Vaidyanathan:** Yes.

**Piran Engineer:** But it seems like that didn't happen. Your CASA has actually improved. So has it improved because of CA or has it improved because of SA? So that's there. And then just on this, and we would expect that over the next few years, you keep pruning your cost of funds by getting it in line.

Now you got it in line with the mid-tier banks and then hopefully, in the future closer to the larger banks. How should we think about whether you want to pocket these gains in terms of NIM? Or you would rather compromise on that and grow in safer segments or, say, for customers if you get what I mean?

**V. Vaidyanathan:** Yes, yes, it's a very good question. So on the SA strategy. Yes, of course, we were debating internally, should we, shouldn't we. And we did do it. One, because we saw the market also almost all competition had cut it and we were kind of an outlier where our rates were standing out quite high.

And we actually felt that even if we cut it, we are safe to cut it, meaning we felt comfortable about it, firstly. Secondly, the fact that this quarter has gone up, you shouldn't read too much into it because this quarter, all of this quarter, we've been having substantially higher SA rates in the market, so to say.

So the truth will tell next quarter or quarter after that. So let's see where it goes. We frankly feel comfortable even if to say internally, if you were to talk to us, we would just say we internally would be comfortable even at 45 to 50 in that zone. It doesn't have to be like 50 plus and all that.

So it gives us enough headroom right now sitting at the current CASA ratio as it plays. So we'll see this, as I told you earlier, end of the day, mind you that we have only for the kind of deposits we're raising, we've only 1,070 odd branches. Now, so therefore, the more network we grow, the more ability for us to cut the rates because the output we need to raise the INR60,000-odd crores or INR50,000-odd crores, that is given because that amount balance sheet is growing.

So if your output is given, then it's a product of the network we have and the rates and we just play as a combination of that. Because other items, other than these 2 variables, the bank has fine-tuned really very well.

Brand is known, products are good, service levels are good, and so on. Now coming back to the second question, how do you want to deal with this that if we get an opportunity to reduce it, what are we going to do with it? Are we going to go down safer segments or are you going to pocket to the P&L?

That's really a very good question. Our own thinking is that we'll probably walk down the safer segments route and increase that as a combination because as we walk down the path into FY28,

FY29, FY30, remember, I always say I hope you'll remember that's right from day 1, 2019, we've been saying thinking long, thinking long.

So even now we're thinking long, we're not thinking for 1 quarter, 2 quarter, we're thinking 5 years ahead. So when we wake up 2030, we don't see ourselves as a bank lending out at 13.5% and having cost of fund of maybe 3.5% or 4% and pocketing and having some insane ROEs, we don't see like that.

We do see ourselves that we would have become a more mature institution. We would have probably come down the risk curve. We would have had a larger proportion of mortgages, business loans, loan against property, gold loans and these kind of businesses.

So hopefully, our credit rating, I'm hoping we'll get to a AAA league. We're AA+ today. So we are shooting to be one of those institutions which people can look back and feel more happier about. And by that time, hopefully, the entire loss from liabilities would have gone away. So that is the picture we have for the future.

**Sudhanshu Jain:**

And Piran, just to add to your specific question on CASA. So I'm saying, as I said earlier, 75% of the increase during the current quarter came from CASA. Of course, CA for us still happens to be a lower proportion vis-a-vis the overall customer deposits. So there also, we saw, I would say, a very decent growth during the current quarter, and the balance was led by SA.

**V. Vaidyanathan:**

But generally speaking, which all of us internally also acknowledge that our CA as a percentage of our CASA and current account as a percentage of our total deposits is quite low relatively because when I told you we had to pay INR1 lakh crores coming up.

So at that point of time, the quickest way to raise this was savings account through our various methods. So the current account is one of our spots that we are relatively, I'd say, on the lower side. But this we will fix. We fixed many things in the bank, this also we will fix.

And the last thing, I must say that while we talked about the fact that broadly we will use this as and when we can bring down cost of funds, either through distribution or whichever way. When we do it, I said we'll go towards safer segments, lesser credit cost products. That's a broad picture we have.

But I want to just point out one thing to you and to everybody hearing the call that a unique DNA built at IDFC, which is coming actually from Capital First, which we've been honing and honing for 15 years now, which is lending to these segments by using technology and underwriting models and scorecards and machine learning-based scorecards, we have 100 machine learning scorecards to give you an idea of example, 100 of them, a little more.

So that kind of a very unique capability where we can power up at scale and open underserved segments in a profitable way, that DNA, we don't want to give away. So in fact, we treat credit cost is a bit like research and development cost. It's not something for us to zero at.

That's not what we're striving for. So that is a unique model, capability we have. We want to keep that model. So just that the percentage of that will come down and the conventional, traditional businesses will increase.

- Piran Engineer:** Understood. Understood. Okay. Second question is what percentage of our unsecured consumer lending, be it consumer durable loans, personal loans, digital personal loans, credit cards, etcetera, are to our own deposit customers?
- V. Vaidyanathan:** Very high. I can't say that for consumer durable, because consumer durable and 2-wheelers are largely new-to-bank customers and so on. But the credit card is largely to our base. Largely, I'm not saying only to our base, but largely.
- Piran Engineer:** And the salaried and professional loans?
- V. Vaidyanathan:** That we are doing a, let's just say, okay job, I use the word okay job because we have a lot more to do on that front. But because our personal loan business is still a good portion is originated through direct marketing associates, etcetera, that we engage with.
- But increasingly, considering that we have developed a really good savings account base and also, we are digital in our capabilities, our ability to give personal credit to this base is very good. Not just we have the base. We have the ability to give also in a very seamless way. So we are growing that, and we are developing capabilities in app, etcetera. I mean I use the word okay because we feel there's a lot of scope to improve on that front.
- Piran Engineer:** Understood. And just last question for Sudhanshu. What are the standard asset provisions you are carrying right now? And when we migrate to ECL, what sort of impact do you foresee, a, on transition and b, after on a steady-state basis?
- Sudhanshu Jain:** Yes. So standard asset provision, the number roughly for the quarter is about INR50-odd crores. And typically, it's about 30, 35 bps of the overall loan book, which we carry. So it should be about that INR950 crores, INR1,000 odd crores.
- Piran Engineer:** I mean the overall buffer. I mean the outstanding.
- Sudhanshu Jain:** Yes, So it's broadly around those numbers. In terms of ECL, yes, this was a question which sort of came in the last call also. Of course, we have responded to the draft paper in terms of submissions, and that has gone from all the banks. I did touch upon that from implementation, first from a capital point of view, we feel that if the guidelines have to come through around ECL, around credit risk, around operational risk, this should be marginally positive for us on implementation.
- In terms of credit cost, of course, there could be some increase on a steady state, but we could have some benefit, which could also come because of an EIR implementation. So we actually need to look into in what form and shape it sort of eventually comes through. There could be some increase in credit cost, just to put it straight.
- Piran Engineer:** Got it. Because the standard asset provision of 35 bps, 40 bps won't be enough, right?
- Sudhanshu Jain:** But I'm saying your ECL, you also have to see in conjunction with the PCRs which you're holding, right? And that also sort of has a play there, right?
- Moderator:** Our next question comes from the line of Param Subramanian from Investec.

- Param Subramanian:** Firstly, could you give a breakup between CA and SA of that 51.6% CASA ratio? And what is the effect on cost of savings from the change that we have taken in January?
- V. Vaidyanathan:** I'll put numbers for you, if that helps you. So our CA number is about INR20,000 crores, correct?
- Sudhanshu Jain:** Yes. So your CA will be about 7% to 7.5% in that 51.6% and balance will be SA.
- V. Vaidyanathan:** That's why we said that we are punching low on CA, I told you.
- Sudhanshu Jain:** Yes, and to your question on the saving rate impact, this would lead to a reduction of about 15 to 16 basis points on the SA cost.
- Param Subramanian:** Okay. Very clear. Second question, in this quarter, like the previous participant pointed out. So our SMA in credit cards is up, and also our write-offs are inching up. So would it be fair to say that some of this is unsecured led and write-offs could stay elevated for some time? Or could this also start falling?
- V. Vaidyanathan:** It's very simple, actually. If you see the write-off is a measure of what policy we have after provisioning. So the way to look at it is that you track us finally what hits the P&L provisions. That's it. So we track also the credit cost.
- So don't bother too much about the write-off or don't write-off in the sense because they're all a line item. End of the day, it is credit cost. That's why we call out credit cost every single time, and we track ourselves to that. I told you the number of 2% and 1.95% etcetera.
- Param Subramanian:** Fair enough, Vaidya. Okay. So my next question is actually on the CGFMU book, right? So about 80% of our book is now in MFI, is now CGFMU insured. So on the CGFMU NPAs, how exactly do you provide? Because one of our peers actually called out that they only provide on the uninsured portion of that 28%, which is uninsured. Is that how we do it as well?
- Sudhanshu Jain:** No. So on this one, I would say we slightly follow conservative norms. In fact, we end up providing 100% as the account touches 180 days. So we have a slightly differentiated policy.
- V. Vaidyanathan:** See, frankly, they all come back to the same thing because end of the day, probably 72% of that is covered.
- Param Subramanian:** So which means later in the year, we will get write-backs whenever we invoke these guarantees, right?
- V. Vaidyanathan:** Yes. Obviously, obviously.
- Param Subramanian:** Yes. Fair enough. Okay. And lastly, sir, so our ROA has started trending up. When do we think we can get that 1% ROA run rate? I heard you mention 1.6%. But when do we start hitting a 1%-plus ROA run rate?
- V. Vaidyanathan:** I know we should be very careful about putting numbers out there. So we will take it by the quarter. We are quite hopeful that every quarter from now on should look better. And see I'm not ducking the question, please don't get me wrong, except that sometimes putting these numbers specifically out there puts us into a position where we can't take market moves after that. So I don't want to pin ourselves down because market is market.

If you've got to cut the rate some, then cut the rate, if you want to increase the rate some, you want to increase it. We just want to be able to play our shots. So, but I must say that fundamentally, you can well think that if you're borrowing money at 6%, we're lending at the rate we're lending, we're posting a NIM of 5.8%, it just has to make money.

It just has to, mathematically, it has to make money. So as the loss from liabilities, comes down, it just has to become more profitable. But I think, hopefully, by end of next year and operating leverage, but I don't want to specifically pin ourselves down to it.

**Param Subramanian:** Fair enough. Sir, 1 last question, if I may, the LCR for this quarter and what is the impact of this transition to the new LCR calculation?

**Sudhanshu Jain:** Yes. Average LCR for the quarter is about 115%, broadly at similar level as the previous quarter. On account of these new guidelines, which will come in from April 1, of course, we will get some benefit on the wholesale front. But because on the retail LCR also, we are at 65%, which I mentioned earlier. On a composite basis, we may have a small impact about 1% to 1.5% on LCR, but it's a quite small number in that sense.

**V. Vaidyanathan:** And to the previous question, don't get disappointed that we're not putting a number down, don't be because like I said, it's not about 1 year, we're building the bank a year after that and the year after that. We are building institution here.

So clearly, unit economics of this bank is pretty good. I told you the numbers, the risk-adjusted income of this bank on a 5-year look through period. It's really good. It just will play out. You will see it quarter-by-quarter and we'll take it as it comes.

**Moderator:** Our next question comes from the line of Jai Mundhra from ICICI Securities.

**Jai Mundhra:** Congratulations on the quarter. Sir, across large products, mortgage, vehicle, consumer loan, can you tell us how much is, let's say, DSA led or co-lending led because I believe the co-lending loans would now be much tighter, and hence, it could be difficult to originate through co-lending and how much is DSA, co-lending and maybe branch-led?

**V. Vaidyanathan:** Not much. Ours is not much of a co-lending model. It's broadly what we originate from our branches, what we originate directly and digitally and what we originate through regular third-party originators.

**Jai Mundhra:** Okay. And sir, any number for DSA or for digital, atleast large products.

**V. Vaidyanathan:** Yes. Of course, if you take large products, then an easy question to answer. For example, take loan against property or take education loan, I'd say it's largely third-party originated. Or if you take a 2-wheeler loan or a vehicle loan, they're done at the dealership point. It's not that customers walk in to our branch and asking for a car loan, right?

So the thing is that if you think of those products, they are the obvious ones. They are more third-party led. And that's a majority, I would say, but we have also developed our ability to have our branches originate. As a bank, we are a bit shy as if you're a customer of the bank, you might have noticed that you don't get too many cross-sell calls, you don't get repeat calls for the same customer.

If any of you have got an odd call, I'll apologize for that but 99% I'm quite confident you wouldn't have got that because we are very careful about anti-repetition rules which we've built in the system, anti-spamming rules, we've built in the system.

So we kind of constrain cross-sell and we think from a customer experience point of view. And therefore, our own cross-sell, I'd say, has some room for improvement. And, for these products, it is more outside. But for credit cards, which largely is in-house, in-house meaning existing customers, where we reach them digitally, and they come to the app and they take the card away. So if you take personal credit, like I said earlier, we're also developing that capability in-house.

We also have tied up with some of the digital platform companies. So we originate through that model because we have really good API architecture in the bank and which we use. So those kind of products, we are also originating digitally. So we don't have the number off-hand. So next time, maybe we will share with you.

**Sudhanshu Jain:**

But, I can just add that, definitely, in some of these products which were there, the proportion of sourcing from branches are increasing, whether it's mortgages, whether it is like business banking, that's entirely done out of the branches, credit card Vaidya already talked about, personal loans also we are trying to source more through our internal channels. So in all of these products, we are trying to reduce the dependency on DSA.

**V. Vaidyanathan:**

And one number, I mean it's coming to me, so basically, we tracked ourselves that how much is the origination by the bank from branches for the last 5 years and it is almost growing, despite all the anti-repetition rules and anti-spam rules, it is growing, while the book is growing by 20%, the business originating from branches give or take, is growing at about 35% to 40%. And so the proportion is obviously, by this mathematics, improving. But what is the exact percentage, maybe next time we'll share with you.

**Jai Mundhra:**

Sure, sir. And sir, a question on your opex and opex strategy actually. So, let us say now so far, the NII growth was lower than loan growth because the NIM was under pressure, and this quarter seems to be a pivot quarter. And NIM has started to expand and maybe this trend could continue. So increasingly, NII growth should become better.

Since that is the case, then will opex remain at 12%, 13%? Or do you believe the opex could also rise because, at least in the last 4, 5 quarters, the opex has been constrained. And as NII growth also increases, maybe you will maintain the delta, or you believe opex is now more or less steady at 12%, 13%?

**V. Vaidyanathan:**

Okay. Let me take that, Sudhanshu. So the thing is that, yes, of course, last 4 quarters or 5 quarters, you can see that we have kept it very, very, very tight in terms of our expenses. The thing is that this could even go back to, say, 14-odd percent, it could well be, like if you look ahead into, say, 2027.

But still the fact is that income will also grow by probably because now the mix issue is already done, right, because the microfinance book had to shrink, has shrunk already. So hopefully, next year, the income also should grow by 18%, 19%. Sudhanshu?

- Sudhanshu Jain:** Yes. So I would say, definitely next 1 or 2 quarters, we see income sort of normalizing much more and maybe keep pace with the book growth.
- V. Vaidyanathan:** Yes. That's fine. But coming back to the point.
- Sudhanshu Jain:** Of course contingent, just to caveat, I'm saying if there are any further rate cuts or any sort of systemic changes, then that could have a different bearing.
- V. Vaidyanathan:** No, that is one thing, but broadly, the opex front, I'll throw a number at you and if I'm wrong in my assessment, then you can correct me also, all of you analysts, that frankly, the book grew by maybe 20% and the income grew by, say, 18%.
- But if the opex grew by say 14%, just to simulate that. That's still operating leverage. And we'll see how next year looks like, but I'm just giving you an order of magnitude the way we are thinking about it.
- Sudhanshu Jain:** Yes. So as I said, income growth could, to a great extent, normalize starting into the early next year. So it could keep pace with the advances.
- V. Vaidyanathan:** Because this year, we really, really constrained it. And like I said, you could choose to pay through the opex line or you could pay through the interest line. We do believe that setting up some cost structures is part of building the bank.
- Jai Mundhra:** Sure, sir. And last question, and a bit of an observation. Sir, if I look at your SMA, SMA-1, 2 has been very, very reasonably stable at 70, 80 basis points. And your slippages non-annualized is also similar, right, 70, 80 basis points.
- So it looks like that either the people who slip to SMA-1, 2, they straight away slip or the recovery is not I mean other banks, they have much higher SMA number and only part of that will slip to NPA, whereas in our case, the slippages are around 3% annualized, and the SMA number has been very, very stable. So either the migration from SMA-1, 2, to NPA looks a bit higher. I mean that is an observation if you have any comment around that.
- V. Vaidyanathan:** It's possible, maybe the combination of our products as such, it's possible. If you are giving mortgages and all, we would have probably got a lot more recovery, maybe another combo of products, it moves ahead. But still end of the day, as long as this 88 or 90 is stable, and our credit cost is on the guidance. See, end of the day, it all comes down to credit cost, okay? So if a credit cost is in the line, our income is like 5.8%, credit cost of assets, I mean, credit costs is 1.36% of assets, it's a lot of money.
- Moderator:** Our next question comes from the line of Suraj Das from Sundaram Mutual Fund. Mr. Suraj, can you hear us?
- Suraj Das:** Sir, two, three questions. First question is on the operating income ex trading gains in MFI. That number seems to have dropped from INR1,500 crores last year 9 months versus INR650 crores this year 9 months. And also if I look at as a percentage of loans, this number seems to have dropped from 14% last year to 10% this year.

And even it is lower than the 9 month FY '24 also. However, as have highlighted and also as we are seeing the trends that our slippages are improving in MFI, so the interest reversals would be lower and then thus the operating income.

So why is the decline? I mean, are my numbers correct? Or there has been any reclassification or any sort of that thing? And if the numbers are correct, then probably can you give some rationale for this core operating income decline in MFI?

**Sudhanshu Jain:** Yes, I couldn't relate the full numbers, but let me tell you that this year has been impacted because of the MFI.

**Suraj Das:** Okay, so I'm calculating this is your Slide 41. If you look at on Slide 41, you have mentioned that ex MFI, the operating income has increased 15% Y-o-Y.

**Sudhanshu Jain:** Yes.

**Suraj Das:** So I think last year, December quarter, you had given some disclosures where the non-MFI portion, the operating income was INR17,805 crores. So this year, 15% increase would be somewhere around INR20,470 crores. And if I minus that from the overall operating income, INR21,134 crores, so hence I am getting the INR650 crores kind of a number.

**Sudhanshu Jain:** Got it. In fact, if you again see that number for Q3, ex MFI, that income has grown at 18%. Ex MFI, also, we had some impact because of the fast repo reductions, which happened this year, we see almost 100 bps reduction in the repo rates, which in terms of a cost of funds have translated with some lag.

So I would say some part of the impact is on that account, right? But things are normalizing, and that's why we also said earlier, that even both MFI and non-MFI, we expect the operating income trend to continue to improve from here on every quarter. So things are normalizing on this front as our cost of funds are also coming off.

**Suraj Das:** Okay. But you have not taken any rate cuts or any card rate changes on the MFI side?

**Sudhanshu Jain:** MFI, we lend at the market rates. So I'm seeing these are pretty standard rates prevailing for some of these products across players.

**Suraj Das:** Okay. So probably I'll connect offline on this for more understanding. The second question is, sir, on the retail liabilities, I mean if I look at the cost to assets on the retail liabilities, that seems to be very flat at a negative 0.8% for the last 3, 4 quarters. Do you believe there is still scope for cost improvement here? And then if yes, what are the drivers?

**V. Vaidyanathan:** This has come by scale. So if you notice, FY '24 it is minus 1.7%. FY '25 it is about minus 1.2%. Now, this year is running trending at minus 0.8%. So this is what we call as the investment that is going in the business.

Investment meaning that liability side is not yet productive because it's a new bank as compared to somebody which is a 25 - 30-year old bank. They are running a marginal costing bank. This is a very important note, okay? A bank which is there for 15, 20, 30 years, they are running a

bank on marginal costing. We are running the bank on full costing because it's a new bank, everything is a cost.

So that is what the -0.8% is there. I mean it should gradually come down. You should not expect miracles here. It should come down year-on-year from here on. And we think that building a bank takes 10 years at least, not just building a bank, but actually to fix a INR1 lakh crores funding problem, legacy plus build the growth of the bank.

It's already spent this time, maybe by next 4, 5 years, this -0.8% should come down towards 0. And that's when the full ROA, what I talked about, that 5.65% NII to assets minus credit costs 1.36%, giving 4.3% at a risk-adjusted NIM minus cost income ratio to pass to P&L that, that thing will fully start reflecting in the ROA of the bank when this becomes 0.

**Suraj Das:** Right, right. Sure, understood. And sir, last question on credit card. I think if you can highlight what is the proportion of EMI revolver and transactor as of December quarter versus last quarter.

Because I mean, I believe that the transactor portion has gone up because you have reported a Q-o-Q uptick in cost-to-income in credit card and also I think the loan growth has been lower than the spend growth. So if you can highlight I mean what is the portion of EMI revolver and transactor this quarter versus last quarter maybe or maybe Y-o-Y?

**Sudhanshu Jain:** So the revolver has been, I would say, quite steady. I'm saying we see a run rate of about 17% to 18% there, on revolver. EMI as a proportion has been increasing for us bit by bit, and that's about 35% to 36% and the rest is the transactor book. So these are pretty standard trends which we are observing in last few quarters. .

**Suraj Das:** Okay, sure.

**V. Vaidyanathan:** In fact, at the progress meeting, I think I got one number, which is probably might be useful for you. Our revolver is about 16.5%, and our EMI is about 36% and our transactor is 47.5%.

**Sudhanshu Jain:** Yes. So those are broadly the numbers which I also sort of called out.

**V. Vaidyanathan:** Are we done? It's like, it's 1 hour 10 minutes in case any other serious questions. I mean if they are, we still need to answer, but I assume most of them are answered by now.

**Moderator:** Ladies and gentlemen, due to the interest of the time, that was the last question for today. I would like to hand the conference over to Mr. Vaidyanathan for closing comments. Thank you, and over to you, sir.

**V. Vaidyanathan:** No further comments to make. So thank you for being with us this late evening. And we're feeling the bank is on a strong ground now, we think that subsequent quarters, next 3, 4 quarters, they should all look up gradually but steadily I'd say more than gradually, it's steadily.

And I think next, we are quite hopeful that the next 4, 5 years, now we are on a steady track. Frankly, it's been like 7 years, except the microfinance thing, which is an industry issue. We haven't put a foot wrong. We played our strategies right, deposits came, our book grew, our credit cost was in control, except this microfinance problem.



And we think that with the MFI behind us, things should stabilize again and rest are playing to plan. So no major call out. We are behind the cost-income ratio. But frankly, when we started the bank, we had no clue that this is going to be so complicated. But overall, we're on track. Thank you so much.

**Sudhanshu Jain:**

Thank you, everyone, for patient hearing. Thank you.

**Moderator:**

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