We don't expect to post a loss ever again: IDFC First Bank CEO

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V Vaidyanathan, MD and CEO, IDFC First Bank, is confident that the pain of the pandemic is pretty much history and normalisation of credit costs at 1.5 per cent is quite certain. In an interview with *Business Line*, Vaidyanathan said that with scale of operations kicking in and legacy bonds due for retiring, he's upbeat about the bank's profitability as well. Edited excerpts:

In your investors' call, you've said that the bank, in the future, will never see a loss like last year. What gives you the confidence?

We have achieved a key landmark where the core operating profit has touched ₹4,000 crore on an annualised basis. Our retail credit loss is stable because of the underwriting standards and is guided at 1.5 per cent, but indications are it will be less. Since our core operating income is substantially higher than our core expected credit loss, there will be a core operating profit, and we don't expect to post a loss ever again. So this is a very key inflection point in our lives. This was not the situation at merger. We've definitely turned the corner for good, and we expect core operating profits to improve from here on.

Today, 25 per cent of the book comes from the housing market. What does that mean in terms of stability and growth?

Our housing loan book has grown by over 40 per cent year-on-year and India's housing market is by itself a strong growth market. Affordability of housing is the highest in 30 years. Because of tax benefits, the effective cost of interest comes down to 4–4.5 per cent in the long run. Also, in home loans, the book will continue to compound because the tenor of the loan is long, and it won't run off. Most of our other products are two- to three-year loans.

With home loans increasing, what will be the impact on your net interest margin?

The reason why Q1 NIM seems lower sequentially is because we did not pass on our higher cost of funds to customers till August 1. We pass it on the first day of every month. So, we do expect NIMs to come

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back to 6 per cent. Also, home loans aren't going to be the only product. We have specialised in other businesses, sothe credit cost is at 0.9 per cent. So, when both grow and, if we look at the book in total, there is scope for us in the foreseeable future to stay at 6 per cent NIM.

There are two other things which work in our favour. There is about ₹23,000 crore of high-cost infra bonds issued by the erstwhile IDFC Bank. They will be replaced at 5.3–5.4 per cent.

So once we replace that money, it will add to NIM. Even if NIM reduces a bit due to promotion of mortgages, the overall operating costs of the bank should come down because of its current scale. So, we have many levers to play with.

One of your peers is getting rid of non-performing assets (NPA) by selling some book to asset reconstruction companies (ARCs). Would you try that route for your legacy loans?

It's a good question. But we don't need to do something like that. Retail loans are self-sorting, and that leaves us with the wholesale side, where the gross NPA is 3.36 per cent. This is largely infrastructure loans.

There is one large toll account, ₹800 crore of exposure, which we believe will resolve and our gross NPAs will decline from here. Our net NPAs, too, will decline without any sale to ARCs.

Do you see the market moving from retail to wholesale as an opportunity, and would corporate loans entice you at all?

We are a universal bank; we do both in a risk-adjusted manner. One of our key strengths, where we have significant value to add and is time-tested, is retail and MSME (micro, small and medium enterprises) lending, where we see strong ROA (return on assets) and ROE (return on equity) expansion. It has been stress-tested through demonetisation, GST, Covid, economic slowdown etc, and NPAs have reverted to gross NPAs of 2 per cent and net NPAs of 0.9 per cent.

On the wholesale side, we'll have moderate growth. But, just to be clear, we have sanctioned over ₹11,000 crore of corporate loans post merger and this book is pristine. So, we do wholesale in a measured way after evaluating risk-reward dynamics. But as a universal bank, we have also launched many other businesses like cash management, Fastag, wealth management, trade etc.

You've touched about a million credit cards now...

I don't think many people would have thought that we could grow a million cards without having DSA (direct selling agents). It is unlikely you got a call from any DSA selling our card.

Basically, our card is so customer-friendly that it attracts customers. Our cards have low interest rates starting at 9 per cent; a lot of customers get offers at 16-22 per cent which is lower than market. Our rewards points are forever; we allow redemption of points against the next purchase, and so on.

You are guiding for a 2 per cent ROA. Such numbers are astronomical for Indian banks...

Our model is simply like that. We are naturally structured for 2-plus per cent ROA. There are three things which will fire up the returns from here. One, we are going to pay back ₹23,000 crore of infra bonds mentioned earlier, which should add about ₹750 crore to the income line. Second, as our scale goes up, income will increase, but expenses will grow at a slower pace. Thirdly, there are some newly-launched businesses like credit cards, which is loss-making but by next year we expect it to be profitable.

We aren't doing enough fee business today. We launched wealth management, CMS (cash management services), Fastag, MF distribution, and so on, which will all grow. We have four to five buttons to press, and when these start giving fee income, the ROA will increase.

With the repo rate climbing, are deposits at 7 per cent on the anvil? And how are you repricing assets?

In the first three years (post-merger), we grew deposits fast because we wanted to quickly retire the corporate deposits and certificates of deposit, and replace them with sticky money. Later, we dropped our rates; still our daily average CASA (current and savings account ratio) shot up from 41 per cent to 50 per cent in FY22. So, there are strong inflows. So, we don't intend to touch the deposit rates for now. On the assets side, we will be repricing the existing stock for repo, and even on an incremental basis we are passing on costs.

Aren't the customers holding back?

There is a strong underlying demand in India, but I think there has been a slowdown in housing demand in the last 2–3 months. But it's temporary.