"IDFC FIRST Bank Limited Q4 FY '24 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 CORPORATE CENTER – IDFC FIRST BANK LIMITED
MR. SAPTARSHI BAPARI – HEAD INVESTOR RELATIONS – IDFC FIRST BANK LIMITED

MODERATOR: **MR. CHINTAN N. SHAH – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the IDFC First Q4 FY '24 Earnings Conference Call hosted by ICICI Securities.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Chintan N. Shah from ICICI Securities Limited. Thank you, and over to you, sir.

Chintan N. Shah: Thank you, Dorwin. Good evening, everyone, and welcome to the Q4 FY '24 Earnings Conference Call for IDFC First Bank.

We have with us from the senior management, Mr. V. Vaidyanathan – Managing Director and CEO, along with the senior management team.

So, without further delay, I would now like to hand over the floor to the Management. Thank you, and over to you, sir.

V. Vaidyanathan: Good evening, everybody. Thank you very much for joining us this evening. This is Vaidyanathan here.

Sudhanshu Jain: Good evening, everyone. I am Sudhanshu Jain.

Saptarshi Bapari: Good evening, everyone. This is Saptarshi Bapari.

V. Vaidyanathan: Hello, everyone. Good evening and between the three of us, we will be able to take you through the key points about our Bank and more importantly, the outlook for the next few years.

Now, when we look at the picture we all know that India is well placed to becoming something like a $7 trillion economy by 2031, or 2030and we know about 66% of India's economy is consumption, of which about 56% is private and 10% is government.

Now 60% of a $7 trillion economy will be something like a $4 trillion economy will be consumption and we feel that we are extremely, extremely well placed to participate in this extra growth. The second part is, of course, when we are looking at the numbers of India's credit today, it's close to about $2 trillion and by any estimates, by 10 years, it should be something like $6 trillion.

So, a good part of India is yet to be built. So, even though we may be a new Bank and an early-stage Bank, the big story for India's growth is yet to happen and the big story for our Bank is also yet to happen. Because all we got to participate in the incremental story, and we will still have a big part to play there.

So, for example, one key change that's going to happen when this credit book for the country grows from say $2 trillion to $6 trillion, the big change compared to the past is this $4 extra trillion, which is going to come in the next 10 years, is going to come significantly from retail, is going to come from micro enterprises, medium enterprises, small enterprises, agriculture, rural India. This is one big area waiting to open up over the next 10 years and therefore, this opens up a very big opportunity for us.

Now, because something's an opportunity doesn't mean that we will get it. There's no natural right to it, there has to be a reason why we will be the best place to get that opportunity. So, today I will spend a few minutes with you just sharing with you how we feel about how we are placed for that opportunity and then, of course, later in the conversation, we will come back and discuss the financial results.

I point this picture out over the next five years or so, because we have completed exactly five years from the time the merger has happened. And therefore, it's a good time to just step back and talk about the next five years all over again or say 5 to 10 years. Now, therefore, why is it that we are well placed?

Now, one of the biggest things to be able to grow and participate in this new big growth that's coming up on all the sectors we talked about is basically deposits. We really feel that it's not today, not because we have been successful in deposits, we are not building the story around it today. From day one, that is in December of 2018, or March 2019, we have been maintaining only one line that the Bank has to really crack liabilities, has to crack deposits. If we solve for deposits, frankly, on the asset side, we really have a good machine, which is really tested now for 14 years. We get a good NIM, we get good margin, we make a return on equity of over 20% in that. So, really, the asset is not a problem. We will talk about that in a moment.

Let me come back to deposits:

On the deposits side, our deposits today is close to about, total deposit is about Rs. 2 lakh crores. Out of that about Rs. 6,000 odd crores is certificate of deposit. So, you can say customer deposit is like Rs. 1,93,000 crores. Now that is like not even 1% of the Indian Banking system deposit, which is like Rs. 212 lakh crores. 1%. We are just 1%. Just put it in context.

Now because we are 1%, doesn't mean we are going to grow. What is the reason again? The reason is that we have built a good brand and the brand attracts deposits. This is one really big achievement our Bank has had over the last few years. The brand is seen, let me say, as a really high-quality brand, seen as an institution. And if it is seen as an institution, it automatically has some amount of people get a sense of safety, security, comfort about dealing with the brand.

The second thing is that as a Bank we have focused upon building really fantastic products. Now our view of Banking is one way of expressing when we say that we mean to give customers, we don't want to touch the customer's pocket for this reason or that. When we charge a lot of fees to customers, then it is always tempting for any Bank to say, okay, I am charging Rs. 2 for a particular transaction. Let me make it 2.5 and the Bank books a lot of fee income. So, we charge 0. So, there can be no temptation for product managers to there is no opportunity for product managers to just touch it by this combination or that combination. This option doesn't exist.

So, therefore, when we make fee income, we make it a truly clean way. We sell a particular product. We sell, for example, credit cards. We say, okay, put a photograph on the card and pay me a fee of Rs. 500 or we sell a Wealth Management service and specifically charge customers fees for a particular service given. So, we are building it the clean way. And then that does give a strong feeling about the brand because while the customer is sleeping, not watching, we don't touch Bank accounts by changing some terms here and there and all that.

So, this is very, very fundamental. And I must share with you, we know the success of a deposit, which all of you know, our success of deposits, I don't want to delve into this too much, but just want to leave one data point with you to drive it home. So, our retail deposits was Rs. 10,400 crores in December of 2018. Now, today that retail deposits alone, just leave everything else out, retail deposit alone is Rs. 1,51,000 crores. That's a growth of Rs. 1,41,000 crores in retail deposit in five years in this Bank and mind you, we were a new Bank.

Now I look forward to more optimistically about our deposit growth for the next five years for a reason. If you think of large Banks, let me say, the largest Bank in the country, let me say having maybe 40, 45 lakh crores of deposits. These Banks or many of the other large Banks as well, they have a large deposit base, and they get deposits from two means. One is called ETB, existing to Bank customers. So, here, if you have a large deposit base of 40 lakh crores, you credit interest to those customers straight away of 5% in a year. The same customers bring some more money, and then you are done. You are done with 70% growth just by existing customers.

The second engine to fly on is new to Bank customers, where you got to bring customers from outside into a Bank. So, many of these Banks straightaway get benefit of ETB. So, there are two engines. Our Bank has been flying on one engine, which means because of a new Bank, we only got new to Bank. We do not have an existing base.

Now, when we wake up and say, now we only have Rs. 2 lakh crores, now these Rs. 2 lakh crores will give us some deposits anyway. So, our engine too, therefore the reliance on NTB will come down and therefore our ETB itself will start giving some deposits to us. So, this is one reason why gradually as we gather momentum, we will have two engines to fly rather than one and flying on one engine for the past five years has been more difficult that subsequent years are going to be easier.

So, this is one reason that makes us very confident. Core retail deposits are now at Rs. 1.5 lakh crore out of Rs. 2 lakh crore of total deposits, and the Customer Deposits are at Rs. 1,93,000 crore of a total deposit. We have guided that the customer deposits will be ~Rs. 6 lakh crores in five years. Let me tell you pretty straight and honest that we don't see a risk to this at all. We believe it will be achieved and we don't need to go crazy on interest rates and things like that. Just normal interest rate what we are doing today, probably it can even drop it over time. But still this Rs. 6-lakh crore, we feel is very achievable for the reason I described to you.

The second thing that is going on is that if you see large institutions, they have been building the capabilities. They have been part of large ecosystem creation. Someone has cracked the entire broker market. Someone has cracked the entire NRI market. Someone has cracked some of these markets for 15, 20, 100 years or maybe for 40 years.

In our case, these are still being built. For example, our current account business is still being built. Our ecosystems are coming along. But the good thing is that whether it is a supply chain financing, whether it is getting the accounts of the small retailers, merchants, traders, it's all hard work because you have got to build them brick by brick. But the good news is that we are really doing very well on current accounts. Now it's coming along pretty well and gathering momentum. We are very confident that the current account business will grow into the next 4-5 years. And again, once you crack, once you get deeply embedded into an ecosystem, then that machine then fires for itself. So, that's about the deposits.

The second part of the story I want to share with you is the fact that we are now a universal Bank. Now this is point #2. First I described liabilities to you. Second I want to tell you universal Bank. Now universal Bank, there is some extra, let me say, stability of earnings across multiple lines of businesses in a universal Bank. In our case now we are not just a large so to say it's not a large retail Bank. That's not the way we are thinking about ourselves also. So, we have retail, SME, rural of course. We also have corporate. We build fantastic solutions on trade now. We have got very good digital solutions, cash management. On Wealth Management, it's just been 5 years. We have our Wealth Management business now touch something like Rs. 16,000 crores and it was like Rs. 1,500 crores 5 years ago. It's like 10x growth in the last 4 years. Not 5 years. In the last 4 years, it's grown 10x. It's like Wealth Management is just flying off the roof for us. I mean, off the charts for us. So, there is something special about our products. In everything we put, we have something special. We just don't make regular products and the rest of the brand takes over, distribution takes it over, digitization powers it up.

So, second part, therefore, the universal Bank, for example, Wealth Management. NRI Banking is good. We are developing, making strong inroads. Treasury solutions all in all universal Banks.

The third reason why we feel good for ourselves, again we say that the big opportunity is there. Why should it come to us or why should we be able to get it? We are embedding ourselves deeply in this customer first theory. Now we are not trying to chip a quick buck on this or that side, all that I told you. And therefore, the product suites we are putting together are all customer friendly. Our people are trained to be very friendly to customers. We really take a dim view, in case, people are found to be rude, or they write stupid circular mails to customers. If a customer writes an email, we write back an email with a holding message not responding for 2-3 days. We kind of look at those practices and we say, "Look, this is bad."

We keep improving every single day. We found that our access was not up to the mark. Then we opened out so many gates for customers to reach us through the Internet, the call center. On the website now we show our ways to reach us very prominently. So, we are making every way for customers to reach us. We want to solve customers' utter issues in the first interaction. So, those are things that I mean the customer friendly.

Then fourth thing I would say is that our customer in terms of positive culture, we are trying to keep a positive work culture in the environment, in the Bank and all that.

Now the fifth thing I would say is probably the last couple of points is that on the loan side, after all we are raising money. Frankly, for us to raise money at 6.3% is like a dream. When we were running the previous part of the NBFC for us to get money at even 9.5% looked like a déjà vu. And suddenly at 6.5% we feel like we are swimming in oxygen all the time. It's just so fantastic to be able to raise Rs. 50,000 crores, Rs. 60,000 crores at 6.3%. We just feel so much in the money just because the amount of deposit we are able to raise and just feel so, let me say, so easy, or it feels so nice and makes our life job much easier.

So, the third thing coming back to is the deposit. So, oftentimes people think of our loan book and say, "Hey, guys, listen your NIM is 6.3%. People scratch their head. How is it possible to have such low credit cost?" It's a common problem that we face when we meet investors in investor calls. They spend 20 minutes on this one subject saying how is it possible.

We have a reason for that. End of the day, there is 14 years a long time for the NPA to stay at 2% gross and 1% net with low-credit costs. It's a very long time. We explain this by cash flow, cash flow, cash flow, because we are a super specialist in cash flow financing. And I think time solves a lot of questions and one of them is cash flow.

But there is one more reason that we are specialists in rural India. I want to bring this point out to you. Because end of the day, rural India is so unserved. Let me just share with you that we put out our rural financing book in the Bank. If you see the slides there, you will find that the rural book is Rs. 24,000 crores.

But really, in the balance book, what we call the rest of the portfolio, there is close to about Rs. 16,000 crores, which are not categorized in rural, but actually rural. Things like, they have gone into loan against property or home loan, they have gone into that categorization. But if you classify them back in rural, that's another Rs. 16,000 crores. Meaning that Rs. 16,000 crores of rural home loan is shown as part of overall home loan. So, if you strip them back and put rural, that's like Rs. 40,000 crores.

But if you see the growth of the loan book of the last five years, the loan book has grown by Rs. 90,600 crores in the last five years and of this Rs. 90,000 crores of loan book, Rs. 34,200 crores has grown in rural financing alone, which means 38% of our incremental book built in the last five years has gone in rural.

Now this has helped us meet two, let me say, I don't like to say birds with one stone. I don't like to say that someone can kill birds. But let me give, let me think of some of the metaphors. Frankly, it's a bad metaphor. So, let me just think of some of the, let me say we solved two problems with one solution. So, which is what are the two? So, one is they are able to get good margins because the rural India products, for example, our products in rural India are JLG, of course. We do micro enterprise loans. We do micro housing loans. We do micro-LAP. We do commercial vehicle. We do tractors. We do all that stuff. So, we do KCC. We do two-wheeler. So, we just started selling gold loans. So, think of it, the product suite is large.

So, the benefit of starting a diversified portfolio in rural India are two things. One is it gives us a net interest margin, which is very good. It gives us to play in a market that is underserved, underpenetrated massively. You can just do enough and enough business and keep going forever and it's not getting saturated at all. So, that's one big benefit. We get margins.

Number two problem we are solving is PSL. Now when we started in March of 2019, we were short on PSL by a big margin, and we had about Rs. 75,000 crore of IDFC book. We had about Rs. 25,000 crore of Capital First book, that's about 1.04 lakh crore. And believe it or not, we had Rs. 3,500 crores that we had placed in RIDF, which means that we were not able to meet our PSL requirements and we were placing money in RIDF at some really ridiculous rate of some 3.5% locked money for 7-8 years and all that.

Because we built a rural business so strongly, our RIDF outstanding, so we are now able to meet our own requirements and able to sell portfolio to the market. That's a surplus. And therefore, now we are making a bit of a profit by selling PSL certificates and therefore our RIDF bonds outstanding have come down from Rs. 3,500 crores to Rs. 926 crores.

So, that's why I told you that two big benefits we are getting, not one, which is I told you is the better margin and second I told you was solving PSL problem, which by the way is a big drag on the Bank.

The third problem we are solving for is also asset quality, because somehow for whatever reason the rural people are that much more conscious, more sensible, they are not exactly supported by lawyers and all that stuff. They just pay the dues. And maybe just that much of god fearing or whatever. Credit performance is fantastic, our Gross NPA here is not even 1.5%, and net NPA is not even 0.5%, so you know it's behaving very well, and we wanted to do that closely. So, let us say these are the three benefits that we are getting on that front.

So, I as I started the conversation that in India, opportunity is going to be very big, but more important than that, we are well placed because we have unique products on the asset side, which can give good margin at low credit cost. And so that's a very, very unique capability our Bank has developed. Second, I told you the liability side.

The last thing I want to say is that the Bank is investing on technology all the time. Frankly, technology investment, a lot of people say, okay, guys, I invested well, I invested well. It's not about investment. It's not about pumping money down technology. People can do stupid things in technology also. You can move a lot of things to cloud and if you move the whole architecture to cloud as it is, without using the tools and technologies and well-integrated cloud, then it is as good as just keeping it on-prem, just scaling it, scaling it more on infrastructure. Those are not really value-adding.

We have developed some really fantastic capabilities of bringing our data lake together, single source of truth, a golden source of truth. We have migrated all our systems. Individual business units are no longer going and pinging the individual systems. They are now going into a single source of truth with the data lake. These are fundamental architecture capabilities the Bank is building. Below the hood, which you can't see as an outside investor, there are really very powerful things happening at the Bank on the technology front. So, that's, and then of course, you have a strong stack of technology. Of course, you can build the rest of the UI, UX, and then we are focusing on that.

So, the last thing I would say is technology. And of course, finally, to be profitable is a very big plus, because frankly, when we were posting losses for 2019, 2020, if you met depositors, of course, I must say that people were still good to us and gave us a lot of deposits, but you are still a little bit backing the wall when you are raising deposits, the Bank is posting losses. So, it was hard. And now, two years of profit last year, Rs. 2,400 crore, this year Rs. 2,900 crore, when you are talking with that level of profitability, people also feel more comfortable to raise deposits. Our employees feel that much more spring is in the feet.

And lastly, of course, ESG has become a big deal. We never focused as much on ESG before. Since we thought of natural ESG, we were not looking at it with a frame, and we didn't study it so closely. But the more we are studying ESG now, we are finding, oh, my god, we have done so much for the elimination of plastic, making the offices green, elimination couriers, moving out to email, avoiding printouts, double-sided printing, avoid color printing the whole thing. It's a long list of things, but I can just say that we are working on it very seriously. But let me say for initiative last two, three years, and it's already beginning to show in our scores on the ESG front.

So, let me just say that these are important foundation blocks the Bank is building. And at least if you ask me personally, I am very bullish about our Bank for the next few years. And for this quarter's numbers, you may have seen it. I am quite happy to open it up for any discussion.

Sudhanshu Jain: So, maybe I will just touch upon some key numbers. As you would have noted that now our balance sheet is almost touching Rs. 3 lakh crores. It expanded by 23.4% on a Y-o-Y basis. The growth is largely driven by a strong deposit franchise and a growth coming in from there. You would have noted even individually, the deposit book has also crossed 2 lakh crores and so has the lending book. Customer deposit continues to be strong. You would have noted that it has grown by 42% on a Y-o-Y basis.

Another area where we feel that we have done reasonably well is on the CASA front. If you see that we have been able to maintain the CASA ratio, excluding the short term flow from a government banking client, at about 46.5%. Even average CASA deposits for us have grown by 28% on a Y-o-Y basis.

We continue to expand our footprint. We are now at 944 branches. We have almost opened about 135 branches during the current year.

If you see on the high-cost legacy borrowings, we continue to repay those that have come down sharply, almost by about Rs. 6,000 crores in the current year. There is a runoff, which is scheduled for about Rs. 7,000 crores, which will happen into the next year as well.

The incremental credit to deposit ratio has been 76% for us. So, that's largely driven by a strong deposit which has been coming in. The cost of funds for the quarter has been stable at about 6.43%, largely stable over the last 2 quarters. While the cost of deposits have slightly inched up by 7 basis points during the quarter, some benefit came in because of the runoff of the high cost legacy borrowings.

On the funded assets, the growth was strong at about 25% on a Y-o-Y basis. We have a very diversified business in a product segment. We have given quite a lot of details in the Investor Presentation. Maybe that can be referred to. The infrastructure book, which is a rundown book now is sub 1.5% of the total funded assets and the book is only now about Rs. 2,800 crores.

Credit cards, again that's a relatively new business. We have already issued about 2.5 million credit cards and the book is now at Rs. 5,500 crores. The card spending has been quite strong for us. It has increased by 58% on a Y-o-Y basis.

Quickly, touching upon asset quality, you would have seen that our gross NPA is now less than 2%. In fact, it has improved by 16 basis points during the current quarter and the net NPA is also now down to 0.6% with the sequential improvement of about 8 basis points. If we exclude the infrastructure book, which is a rundown book, in fact the GNPA is more like 1.55% and net NPA is only 0.42%. We are maintaining a healthy PCR of 73% on the book if we exclude the rundown infra book.

Similarly, on retail, the GNPA is now down to 1.38% and the net NPA is only 0.44%. The standard restructured book is now only 0.31% of the funded assets. The point to note here is that 95% of the book is secured in nature and we are holding about 20% provision on this book. The SMA 1 and the SMA 2 book of the retail book is stable around 0.85% and on the corporate side, this number is actually quite minimal.

The gross slippages for the quarter were lower at Rs. 1,347 crores compared to Rs. 1,422 crores in the previous quarter. This is almost a reduction of about 39 basis points. Similarly, net slippages were down to Rs. 724 crores as compared to Rs. 866 crores for the previous quarter and here also the reduction is about 16 basis points.

Moving on quickly to profitability, the profit for the year is up by about 21% at Rs. 2,957 crores. In fact, we had slightly higher treasury gains in FY23 as compared to this year and if we exclude that from both the years, then the growth in profit is actually 28%.

Profit for the quarter was marginally up at Rs. 724 crores against Rs. 716 crores in the previous quarter. Core operating profit was very strong. It grew by 31% and is happy to report that it has now crossed Rs. 6,000 crores.

The net interest income has grown by 30% on a Y-o-Y basis. The net interest margin on an AUM has improved by 31 basis points during the year.

Fee income also had tremendous growth that increased by about 40% on a Y-o-Y basis and large part of this was retail led, which you would have seen from the presentation that almost 93% is retail.

Operating expenses increased by 33% on a Y-o-Y basis. The increase was, I would say, across employee expenses due to business volumes, due to branch expansions, an increase in some tax expenses and so on.

Credit cost as a percentage of funded assets was at 1.32% for FY24. We saw some normalization during the course of the year, and this was around 1.5% for Q4 FY24.

Moving on to the last section, which is capital adequacy. The capital adequacy stands at 16.11% for us vis-à-vis with CET-1 ratio at 13.36%. During the year, because RBI had increased certain risk weights, we had an impact of about 100 basis points on the overall capital adequacy and about 82 basis points in CET-1.

LCR was strong at 118% at March end and we continue to maintain healthy levels around LCR.

With this, I have covered broad numbers for the quarter and for the year and we can move to the Q&A.

V. Vaidyanathan: Good. We have got 30 minutes, friends, for Q&A. So, please make yourself comfortable and feel free to ask us really anything you feel like at this stage.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Pritesh Bumb from DAM Capital. Please go ahead.

Pritesh Bumb: Two questions from my side. One is, as you mentioned about the deposit franchise being more now sustainable and can run on a two-engine side. So, will it be possible to outline that we should not incur the cost we were incurring earlier, given that branch Banking was a major cost center earlier? Can we see that inflection point from now on that the cost, the OPEX ratios will start going down?

V. Vaidyanathan: Yes, of course, you should expect that from us.

Pritesh Bumb: So, any targets because our guidance does not include any, in next five years, any cost side type of guidance, but anything you can outline for next two, three years?

V. Vaidyanathan: See, by end of this year, we expect the cost increase to be roughly flattish for the next two quarters and Q3 and Q4, we see meaningful reduction. So, like Q4, clearly we feel will be in a strong wicket. The reason is actually simple to understand. As all of you know, our credit card business will start moving to profitability by Q3, Q4, so the Bank on plan. If you remember, we had always said that the '25-ish end-ish, it will start moving and the '26 will make money. So, that's a crucial inflection point coming towards Q4 of this year.

So, for example, the credit card business, our cost income ratio in FY '22 was 240%. In FY '23, it's 165%. In FY '24, it is 116%, a big drop. And by FY '25, we expect it almost sub-100%. It will come below 100%. So, this is one reason why we expect the Q4 to look very good.

Similarly, our cost income ratio on retail, rural and SME business is running at 55% now for two years at a stretch. So, it could marginally come down, but it's stable at 55%, should come down, of course, in due course. Our wholesale Banking is running stable at like 33%. So, therefore, the only drag was liabilities.

So, coming to your, so therefore, just to conclude that point, we feel that with scale, our cost income ratio should start turning down, but material, let me say in Q3 & Q4.

Pritesh Bumb: Second question was on basically a lot of discussions around tech and how things are playing in the industry. Just a small question was that you have some of the products where you have leadership in, for example, FASTag, you have significant UPI volumes. How are we geared up to handle these kinds of volumes? Because these seems to be a niggling issue in the industry.

V. Vaidyanathan: Actually, our Bank, let me just say that nobody can ever be too sure, first of all. Okay. This is an area we always watch for, and frankly, we can never be complacent. Let me say, we can never be too secure. Because we are conscious of the risks of the tech or not being invested in tech can play a role, we have been implementing, let me say, the latest technologies. Many of you call us a high-cost Bank and you call us names, but I can just say that if well spent. That I can assure you.

So, we have invested in the best CRM system, in the best ticketing system, in the latest versions of the middleware. Our applications are, let me say, the best of what India has to offer because some of these things are they are industry standard. So, applications are applications. We have built a really good engineering team. We do performance testing literally all the time of our engineering teams.

We are building fantastic, I hope, I don't know if you, Pritesh, yourself have used it or maybe anybody else who can speak on this forum and over 200-300 people are here. I can almost tell you that any one of you would have experienced the Bank, experienced us, not just known our brand name, experienced us. I would say that you would say really good things about our app.

Our app is really becoming fantastic. I am scared to use the word fantastic for ourselves, but let me just say good. Let me just say that probably our app is really good and we are developing, its response time is really very good. Our uptime is fantastic really on almost all lines of business. So, let me just say, we invested wisely in technology. And as I said earlier, it's not about the money we spend. It's about how we use them.

So, we really spend a lot of time right at my level, my one down level. We try not to take any chances and if we find any issues, then we take it very seriously. If anyone else flags an issue to us, we really jump up and down to figure out how to solve it in the quickest possible time. Our board is very engaged. Our board also is, even at my level understand technology, the subordinates understand technology, my two down understands technology, our board has a specialist of understand technology. We all put an effort after that.

Moderator: Thank you. The next question comes from the line of Gao Jaixuam with Schchontao. Please go ahead.

Gao Jaixuam: Just want to understand on the deposit front, I mean, we have been doing a fantastic job in terms of outgrowing everyone's deposits, but when I look at the deposit per branch, that has shown a pretty good growth of 14% in the fourth quarter, which is similar to that dropped 13% in the fourth quarter last year. So, I just want to understand, how should we think about branch level deposit growth going forward? When do you think we will actually outgrow the industry, right, because the industry deposit growth is 13%, 14%? So, on the branch level, when do you think we will see ahead of industry deposit growth?

V. Vaidyanathan: If you think in terms of vintage, we have just been five years, I reminded you earlier that our deposit in 2018 was Rs. 10,000 crores, which is, you think of it like a start. So, in that sense, we are new. But our deposit per branch is only running at Rs. 200 crores, just for information, Gao. Rs. 200 crores per branch today.

So, there is something very strong about the way we have built the capabilities of our employees. Of course, a lot of it is got to do with the digital. Some is got to do with the culture. We are like crazy about customer service. We really get pretty we take that. So, I think we have culture, service, tech. All that is coming along. So, I say that we are now in terms of, we don't want to only depend on branches, because we feel that's not efficient. In tech you invest once & multiply it many, we can give far better returns and invest in branches.

So, our incremental going in thesis in the next five years is that we don't need as many branches. We just don't need as many branches. We feel that our current tech is firing very well. So, as many branches meaning that, in other words, to grow to a current deposit base of Rs. 2 lakh crores, we needed say 950 branches. It doesn't mean to take the business to say Rs. 4 lakh crores, we need 1,800 branches and to take to Rs. 6 lakh crores, we need 2,700 branches. It's not like that. It's not needed anymore.

For example, when we take our book from say currently Rs. 2 lakh crores to Rs. 6 lakh crores, we don't expect to add not more than just about maybe five or six maybe 700 branches more or 600 more. But it's not 2,700 more. So, the incremental throughput per branch for the Bank is very good. I mean what we are saying is that the deposits have grown disproportionately more than the number of branches we will add. That we are very clear about.

Gao Jaixuam: That's good to hear and very clear. Do you mind giving out FY '25, sorry, your next five-year guidance? Do you mind sharing with us what kind of assumption we are assuming in terms of per branch deposit growth? Because I guess that affects our cost assumption as well, right. So, to understand a bit more on that.

V. Vaidyanathan: To be very specific, we have said that currently we have 900. We said we will get 1,800 branches. That is 2x. That is 900 more for Rs. 4 lakh crores of deposits. Today we are Rs. 2 lakh crores. We are going to say, we are going to add Rs. 4 lakh crores of deposits by adding just 900 crores more. So, which means that our branch productivity is going to double on incremental branches. That's briefly the way we are thinking about it.

Frankly, internally we are feeling very confident about this. There is in our senior management, if you were a fly on the wall, if you just walk across any branch and talk to, I really invite you, please, any of the 200 or many of you on the branch, please walk across any of a branch, talk to any of our branches and staff, be friend with somebody whomever you want to know and talk to them how the Bank is doing. They will tell you how the Bank is doing. The feeling is very, very nice within the Bank.

Gao Jaixuam: And the last one is on the credit cost. How should we think about the credit cost going forward? Obviously, we are kind of normalizing back slowly, right, from a very depressed level, similar to the industry. So, do you think this process continues smoothly in the next year? How should we think about this?

V. Vaidyanathan: See, credit cost is a direct benchmark of what happens, the input parameters that flow into, that become a credit cost, like how the check bounces or collection efficiency, etc., that lead to it. Now, we are finding very stable performance on our books. We feel that our credit cost for the next year could be, currently it is about 1.3%. As it normalizes, expected to be 1.65% or so next year. But it will be more, it's likely to be more front-ended for a reason, I will describe it later if we have time. But we feel Q3, Q4 credit cost to be, we expect to be quite low. And think of it like almost like a flat line all through the next year. But think of it like 1.65% next year.

Gao Jaixuam: For the fourth quarter, what's the credit cost as per your calculation? Per your definition, what's the fourth quarter credit cost? For the full year, it's 1.3%. Just wondering for the fourth quarter, what's that?

V. Vaidyanathan: It is 1.5% for the quarter. And next year, we are guiding for 1.65%. Actually, we feel internally more like 1.6%, but think of it like 1.65%. But I just want to just flag one second. What we feel very, at least good about us within this, is that it's not that our yield the book is high or NIM is high. The fact that we are able to do that with low credit cost is a very unique capability. We really believe that. So but your specific question on guidance, I told you.

Moderator: Thank you. The next question is from the line of Deepak Vohra from Premier Capital. Please go ahead.

Deepak Vohra: My question is largely on the cost to income ratio, again. Although we have come down from the levels five years ago, I feel that we are still at a much higher level than the guidance shared during the merger, which was around 55%. Also, if you see the Financial Year '24 versus '23, on an annual basis, the cost to income has actually gone up rather than scaling down. And in the last year, we have made a significant investment for the BCCI sponsorship. So, I just wanted to get a better understanding on what drove the higher levels for the Financial Year '24.

Sudhanshu Jain: Yes, cost to income has been, we agree that it has been stable during the current year. It has not improved that significantly. But if you see, in the previous year to that, we had an improvement about 500 basis points. As Vaidya said that we expect cost to income to meaningfully come down starting H2 because of legacy liabilities sort of coming off, because of credit card moving towards profitability and many other factors. So, we know this is a one key deliverable for us, and we expect to better on this front as we move along.

V. Vaidyanathan: We want to fly one more point to you. Everything you are building in the Bank; I understand many of you are concerned about the cost at the Bank. The thing is that the trend line is good. Of course, this year, we didn't do a good job in the sense it just flattened out. Interest rates went up and that kind of chewed a little into the margin. Otherwise, we could have done better. But still having said that, let me just say that everything I am building in the Bank are thinking long. And this is super important to note.

For example, there was no pressure for us to have launched credit cards. Well, we could have lived without credit cards and life would have been okay. But then, we would have paid a price when we woke up in 2025, 26, 27, 28. When we started to launch a credit card business, we would have to come back and be defensive or the numbers would be going the other way round when it's supposed to be improving.

So, we just launched so many lines of businesses, whether it is gold loans, whether it was Kisan credit card. We launched the prime home loan, which is also by the way a drag on the Bank at this point of time, it's not making any money. It is just because that's the way that long-term nature of these products are. For example, if you take a home loan, you book all the DFA payouts and cost evaluation, everything upfront today. The money will come, and it comes over the life of the contract.

But we are not holding back. We are building what we have to build because otherwise the future will be difficult for us. So, prime home loans we started. Credit cards I gave the example. Then education loans we started. These are commercial vehicles; we want to meet a PSL requirements. They are all negative, negative products today. They are not making any money. In fact, they are negative.

We started cash management business. A lot of technology built it goes into it. These are a trade finance solutions. These are a lot of builds for that. Forex solutions we are building. Negative drag on that. Gold loans we started. Negative drag on that. Losing money as of today, but it will not lose money forever, but just a build-up stage. We have a thousand crores. So, KCC I told you.

Farmer loans, tractor loans, Wealth Management, FASTag, Forex card. You can name the list of products we are launching one after the other inside the Bank. They all lose money initially because everything needs a scale up time. So, that's why we are confident that once they all start gaining momentum and they come out of the J-curve, then you wake up in 26, 27, 28, 29, they will all be throwing back cash.

Moderator: Thank you. The next question is from the line of Prakhar Sharma from Jefferies. Please go ahead.

Prakhar Sharma: I just wanted to ask you a couple of things. One, could you give some sense of the loan growth expectation, let's say how you are building up for the next year and as the operating efficiencies start to play out, maybe current costs start to normalize at a slightly higher level, in a three-year view, what should we think of ROA, ROE terms?

Sudhanshu Jain: So, Prakhar, maybe I will answer that question. So, loan growth has been 25% in this quarter. If you see in fact on a quarter-on-quarter, the growth is 6% and within that also in certain segments, we have slowed down, like consumer loans have slightly come off. Even digital loans have not grown in that proportion. So, we feel that loan growth will be more around 22% to 23% into the next year. Moving on to the credit cost, as Vaidya guided, we should range around 1.65% and certainly our endeavor on ROA would be to touch more closer to, I would say, 1.45%, 1.5% the next two to three years.

V. Vaidyanathan: And Prakhar, by the way, thank you for your research report on us. It's so detailed and in-depth. Wow. It's a great job. So, thanks so much. Not because it's a good thing about our share price, but just the quality of the report is something that we are super interested to talk about.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from Motilal Oswal. Please go ahead.

Nitin Agarwal: Good evening and congratulations on our strong performance and really the deposit progression is nothing less than outstanding, sir. So, hearty congrats on that. So, I have two questions. First is on the LAP portfolio growth. So, after a gap of four, five quarters, we have seen a double-digit growth in the LAP portfolio. So, how are we looking at this as there has been an improvement in the credit environment, and this used to be one of the main businesses and now seeing this traction this quarter? So, anything more to read into this? And second is on the liquidity coverage ratio. Because while the deposit growth has been very strong, but since there has been a slight drop in the LCR on a sequential basis. So, what has really caused that?

V. Vaidyanathan: Let's take one by one. See LAP, frankly, whether it's LAP or any other business, it's just in our hands. We can book as much as we want. We are a small player. We have fantastic tech capabilities on being able to originate loans with good asset quality. So, well, if you need to do more, we don't have to relax any credit norm. We just have to just open some more locations and we are in.

So, currently LAP is growing 20%, but we are moderating more with the amount we want to grow, keeping the amount of capital in mind. We should be thinking of raising capital now. So, we want to make our capital run longer. So, we are more conscious about how much we want to grow the balance sheet in a given year, and that's why we guide for this 22-odd percentage as Sudhanshu said. So, the short point is therefore that we don't have any problem. You don't have to worry about growth for our side. It's in our hands in that sense. With quality, not to worry.

Now LCR, frankly, it's marginal. I don't think there is any specific, if you keep growing the way we are growing deposits, we are very clear next year deposits also will grow. We will keep our LCR certainly no higher than 80%. Not LCR. I mean, the CD ratio.

Sudhanshu Jain: Yes, CD.

V. Vaidyanathan: But CD ratio next year, for example?

Sudhanshu Jain: Yes, should be around 75 to 80.

V. Vaidyanathan: So, we are so confident, Nitin, that on a deposit story that next year also, I mean, by the way, it's been 5 years going, our incremental CD ratio is really very good, and we believe even next year we can keep it under 80%. On LCR, maybe anything you want to add.

Sudhanshu Jain: So, Nitin, on LCR, we would continue to maintain around 115% levels and so we feel quite comfortable. We don't see it as a challenge.

V. Vaidyanathan: 115%, 120%, somewhere in that zone we will rest it.

Sudhanshu Jain: Yes. So, some liquidity was deployed during the current quarter, but we feel quite comfortable.

V. Vaidyanathan: Nothing to worry.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: Just continuing from the previous question on LCR, sir, on the previous four quarters if you look at, LCR has been more than 120%, but in this quarter for 4Q, annual average we are giving 114. So, is there some reclassification of deposits that have happened? That is what I wanted to understand. That is one.

Second, sir, thank you for the elaborate discussion on the rural business that we are building. So, if you could just help us understand what will be the rural ROE that we are making right now. And second, if you look at the last 5 years, it has been good from our monsoon's perspective. So, in case the macro turns adverse in that, are we building in some safeguard of the first on that portfolio or what will be the consequences around that?

V. Vaidyanathan: Why don't you take the LCR question? I will come to the rest.

Sudhanshu Jain: So, as I mentioned to Nitin that, of course, we were maintaining slightly higher LCR into the previous quarter. This quarter we have come down to about 114% on an average. One is we did not want it to play the rate game. It is quite intensive as you know, right, in the last quarter. So, we feel that even into the future quarters we should be able to maintain LCR comfortably around 115%. So, it's more, I would say, a quarter phenomenon where slightly some normalization has happened. But we feel quite comfortable on that.

V. Vaidyanathan: Like the answer to the previous speaker, Nitin, this is like business as usual. There is like lots of liquidity. In fact, if you do a smell check in the market and I really request you to do that, you find out will you ever find a Bank ever in any corporate fighting for deposits in a large corporate. And there are a lot of these names that go around during year end. Somebody wanted to pay Rs. 500 crores, Rs. 800 crores, Rs. 1,000 crores. We just genuinely say thank you to them saying that look, we are just not there in this. We just don't need it. And that's because our retail flow is so strong, that from the branches and everywhere so strong, we just don't need it. So, I assure you, please check it. Nobody will ever tell you that our Bank is out in the market for the bulk deposits. It is not there. So, coming back to the point, therefore we are good.

Rohan Mandora: Just a follow-up on that, because the investment has also gone up by almost 19% Q-on-Q. So, that should have typically prompted an uptick in LCR. The liquidity has actually increased. So, that's why there was some confusion.

V. Vaidyanathan: No, no, but we clarified that. Currently, it's a lot of liquidity. Think of the 1-2% here or there. Let me just say it's not a material amount. Now let me come back to the rural question. Now, well, the rural economy, see it's not about rural economy, urban economy. I think people just kind of give stamps and tags like these. We don't like these kind of classifications. They are just not one homogenous rural market or homogenous urban market.

So, the thing is that within rural market, there are just so many markets. For example, if you are giving a home loan or a loan against property or you are doing a good cash flow assessed models, then they perform well. And you have to treat them over cycles. And we have seen 14 years.

Let me tell you what 14 years is so that you get to appreciate that better. Every loan, every month is a cohort to track over a life cycle. 14 years means just think about it. That's the number of cycles we have gone through. Not the 14-year cycle. Every year within that 14 years of the cycle. So, we have been through just so many cycles.

We understand this economy very, very deeply. Whether it is rural housing or a rural home loan or urban home loan or urban rural market or micro enterprise loans, our JLG business was happening even before the merger happened. The merger happened in 2018. But my predecessor Dr. Rajiv Lall, thankfully, had acquired a JLG company called, I think, Grama Vidiyal. And that turned out to be phenomenal company for us. And I often thank him from my heart. Thank God, he gave me a good franchise there. So, we have been tracking this very, very closely.

The main thing is systems and domain knowledge. Systems and domain knowledge. Systems are systems. There is no substitute for good systems. But good systems plus domain knowledge. Don't worry. If there is anything to call out, we will call it out also. We will be totally honest and transparent. As you know, you have been with us for many years. Hopefully many of you are. We have never hidden problems. If there is an odd issue somewhere here, let us point it out. Nothing as of now.

Moderator: Thank you. The next question is from the line of Kunal Shah from Citigroup. Please go ahead.

Kunal Shah: So, this entire breakup in terms of the cost to income, if you can highlight in terms of the proportion, how much would be getting into the credit cards and the liability of the total cost of Rs. 16,000 odd crores? Just trying to see in terms of how much of leverage can it bring about in terms of the overall cost to income as and when it normalizes.

V. Vaidyanathan: I don't know the number off-hand.

Sudhanshu Jain: Yes, Kunal, we are not calling out that number. But Vaidya talked about credit cards. We certainly see the trajectory improving there. And on liabilities also, why we saw some uptick during the year? Because we have put out more branches and so on. But we expect to sort of improve on these numbers. But incomes from insurance and selling of third-party goods are improving. We have still some ground to cover there. So, I feel that with a combination of fee, better cross-sell, distribution of asset products from branches, insurance products and so on, we should continue to get an uptick on the fee income as well as our costs should normalize on the liability front into the next year.

V. Vaidyanathan: And Kunal, let me add one more point to you and frankly to everyone hearing this call. We talked of a long-term picture, like five, eight years. We said, look, India will grow like that. And we believe we will do well in that for the reasons I described earlier. But let me just give you a short-term view, like a one-year view so that you know what to expect from us.

Now, what our view is that the next couple of quarters, we should expect, maybe next quarter, we should expect flattish kind of performance from us on earnings front or somewhere in that zone. And maybe Q2 should see some improvement, but Q3 should see good improvement and Q4 should see strong improvement. So, it's going to be very back-ended this year. I will describe that reason also to you. And if you understand the reason, then you feel comfortable. So, that's why I mean to give you a short-term guidance.

Now, it goes like this, that in the first quarter, of course, we will get salary increments and all that stuff, which of course happens to everybody, but it does cause a temporary, slight touchdown to the numbers.

The second thing, but more important, I called out last time and I will say it again to you, about FLDG. So, we are good players in the digital market and there are certain partners with which do business. Now, we were earlier in a model whereby when we did a digital loan, the income, the full income, maybe 17%, 18% came to us and the full credit cost came to us because there is no FLDG.

Now, recently, the FLDG is permitted. Now, what did we do? It is a good thing in the interest of the Bank in the longer run to move to a model where the partner absorbs the credit cost. But well, it works both ways so that the partner wants the income today. So, what we are doing is that this quarter onwards and that happened as well as the quarter that will come up in the next two quarters, you will see a payout to that partner. But therefore, our OPEX will go up in Q1. But what will happen is that when Q3, Q4, these are the short-term loans, six-month loan kind of stuff. So, when Q3, Q4, when the credit cost will come on those loans, that credit cost will be incurred by the partner, not by us. Therefore, you will see that the credit cost in Q3, Q4 will be quite low and benign, and you will suddenly see a PAT going up in that time. And Q1 you will see cost because we are going to pay the partner, it's going up. So, this is one reason this FLDG.

The second thing liabilities. We will be paying off some Rs. 7,000 odd crores of liabilities at 9% in Q1, Q2. So, you will see by the time Q4 comes, you will see that benefit will come to us. Credit cards, of course, Sudhanshu said and all that. So, you should expect a moderate performance from us next quarter. And I mean, on the profitability front and then take off during the report. So, please factor this in your mind. And many people have put up research reports on us and we will hope not to disappoint you on that, on the overall number. I saw Prakhar's report recently. We will try not to disappoint you. And we will be somewhere there hopefully. So, that's on this front on how the FLDG and the story sort of plays out.

The other thing is that, like I told you, we are not binding ourselves to exactly what the market is expecting, etc. I am just making it very plain to you. We are building for the long run. If something is important, we will invest. We will just go and just do it, and like we have been doing. And it's important to be disciplined. We don't waste one penny, but we are building for the long run. We will build what we have to build, but I can only tell you the long-term result of our approach will be very, very good because we will come on a very good platform.

Kunal Shah: This is very helpful. And secondly, in terms of the core PPOP, so you clearly articulated the trajectory over next four quarters, but looking at maybe what you are targeting 1.4% ROA with almost like say 1.65% credit cost, so ideally when we look at the PPOP from 2.25%, 2.3%, what are the levers which can take it up further, say, from here on? Will it be more cost to income or maybe still there is some, obviously some borrowing requirement will help in terms of the lean trajectory. But besides that, are any other levers available? Because fee income is also upwards of 2%, margins are also at this level. So, will it be largely cost to income?

V. Vaidyanathan: Largely, let's say, cost to income. But also, see, frankly, when people look at cost to income, they often miss a point that cost income is a derivative item. It's not an input item.

Kunal Shah: Yes, cost to asset, broadly, if I were to look at cost to asset.

V. Vaidyanathan: Yes, that's where we look at it. The way to look at it is that, are the incremental unit economics strong? If you look at how our PPOP has grown and over the last five years. You see our loan book has grown at a compounded rate of 13% over the last five years. So, for a normal Bank, usually, the PPOP grows at the rate of a book growth. But you know what is unique about our Bank? Our loan book is growing by 13%, but PPOP is growing by 40%. How is magic possible? Possible because only incremental book is more profitable in the past.

Kunal Shah: Yes, it's more retail, yes, retail driving the overall.

V. Vaidyanathan: It's profitable. It must be throwing more money to the P&L. Otherwise, how would book grow by, even this year, the latest quarter that went by, the latest year that went by, even in the period when interest rates went up, everything happened, our PPOP has grown up by 31%. Loan book grew by 25%. How did this magic happen? Think about it. 25% was the loan book growth this year. Operating cost is under 31%. So, this kind of a story is clearly telling you, this is I am telling the latest quarter.

So, this is something that's telling you that the fundamentals of a Bank are really very strong. We have to be just patient, not get in a hurry and not become a please all people, stick to discipline and build this book patiently over the next two, three years. And this is how this magic happens. If you are stable about it, one or two years, we will find our ROA will probably be stable, 1.1% probably still be 1.1% next year, because it still is a form we will build it.

But when maybe you play the same stroke over and over again and this joy of the fact that PPOP grows 30% and the book grows 25% or 22% or 23%, then that jaw continues to open. You do that year after year into 25, into 26, into 27, and 28. Suddenly you say wow, this Bank is now this is just fantastic and the numbers will look very good. But I am really requesting all of you to be calm about this and patient about this because we are building to a plan. We are sharing our plan and you can read any incremental economics. You can talk to our people. You can do all your research. I am quite confident that this will smell right to you.

Moderator: Thank you. The next question is from the line of Vikram Subramanian from Marshall Wace. Please go ahead.

Vikram Subramanian: Just wanted to check on the growth guidance. So, you had mentioned 22% to 23% advances growth with incremental LDR of somewhere close to 80%. So, should we assume 28% to 30% deposit growth for FY '25 and do you think that is internally achievable? Just some comments on that, please.

V. Vaidyanathan: Yes, easily achievable.

Sudhanshu Jain: Grow deposits by slightly above 30% and achieve those numbers.

V. Vaidyanathan: See one key thing, Vikram, to note and it's a good question by the way, is that our Bank is doing two jobs today. Okay, this is a very important note. We are funding our own growth, and second is we are also repaying the legacy liabilities, I mean the bonds and all that. So, Rs. 29,000 crores we paid off.

How did we get Rs. 29,000 crores plus grow our loan books? So, we are having to do two jobs today. So, after the end of this year in '25, most of the legacy liabilities will be paid off. So, when you wake up in FY 25-26, at that time we will only need to fund our growth. We don't even need a deposit growth going at this pace. So, this is a very important point actually. So, therefore, the pressure on the Bank to raise deposits also come down, let me say certainly after '27, '28, '28, '29, we have only one job, just fund our growth. We don't have to pay any past dues. So, in fact, Bank may be, depending on the environment at that time, may even bring down rates. We give it a good probability that we will do that and that's how we will play it. So, that could actually add to the margins at that point of time or profitability and all that.

Vikram Subramanian: So, that was clear and good to know. Just another question. Sorry to harp on this liquidity coverage ratio. I guess a couple of other participants asked as well. Just not able to reconcile this almost 7 percentage point fall in LCR, despite deposits increasing 9%, 10%, Q-o-Q and liquidity on the balance sheet has also increased. So, are there any change in the buckets? Not able to understand that.

V. Vaidyanathan: Two-three people to ask this question, why don't we just come back to you on this, but Sudhanshu has answered it a couple of times, I tried to answer it a couple of times. So, maybe we are not able to add through this one, but is there anything else you want to add, Sudhanshu?

Sudhanshu Jain: No, I am saying 115% itself is a very strong number and there could be some short-term, because LCR is generally repayments within one month, right? So, there were some borrowings which sort of came up for repayment. As I said, I didn't know, we didn't want to play the rate game. We could have mobilized some more funding to sort of keep the LCR at higher levels, but we chose to maintain LCR at around 115%. And we feel that we will be comfortably able to maintain it even going forward.

So, the RBI requirement is 100%. So, I am saying we also have to optimize our liquidity. So, I feel that if you are maintaining around 115%, that should be broadly okay. And believe me that our deposits are granular. If you go and see the LCR disclosure, deposits from retail, customers from small businesses, those ratios are quite steady while the overall customer deposits have grown by 41%. These segments have also grown I would say at least slightly better. So, you should not get too much worried on the LCR side.

V. Vaidyanathan: And I would say one more thing to go back to the previous question that you asked to one prior participant. The thing is that why is it growing deposit at 40%? I told you we are having the growth need as well as past liabilities. So, we have right now about maybe Rs. 12000 crores of legacy liabilities. And also, there are some more liabilities like bonds, etc., which were not legacy but we borrowed after the merger happened. That's like close to Rs. 15,000 crores. So, this is because it is available at a very low rate during COVID, so we took it.

Now during the next couple of years, we plan to even pay that off by deposits, not the borrowing. So, therefore, you will see us grow deposits strongly over the next two years and for paying off both the legacy borrowings, I mean, the bonds and loans. So, we will pay that off with deposits. Next year also we will do that, both the legacy as well as this one. So, we will pay off everything and then we will be Deposit Funded Bank. So, this is the reason why for the next couple of years we will see us raising it.

After that, like I said earlier, we will slow down the growth of deposits. And then life will be relatively easy. By the time engine 1 will also be firing, engine 2 will be firing because existing stock of deposits will be like something Rs. 4 lakh crores. Well, Rs. 4 lakh crores will give us probably about Rs. 40,000 crores just like that from existing. Maybe if not Rs. 40,000 crore, maybe Rs. 30,000 crores will become existing stock itself. So, you should see us may be dropping the rates like I said earlier.

Moderator: Thank you. The next question is from the line of Sonal Minhas from Prescient Cap Investment Advisors LLP. Please go ahead.

Sonal Minhas: Sir, again great set of numbers on the deposit side. I think that has been the standout trend for the last 4-5 years. And thanks for including disclosures on the NPA side as well segment wise. I just had an observation on the same slide number 42. Our slippages have been in the range of 2.75% on an annualized basis of 3%. And the NPAs as we see are between 1.5% to 2%. So, I just wanted to understand subjectively which segments are we slipping more? Are we putting some speed breakers among these segments specifically mentioned in slide number 42? Anything subjective commentary on that would be really helpful.

V. Vaidyanathan: I don't have the specific slide on hand right now that we are listening to. But let me just take your question generically.

Sonal Minhas: The question is where are we slipping more? I think that's where.

V. Vaidyanathan: No, that's fine. So, see, there are some businesses. See, first of all, the blend of our slippage on a net basis used to be about 2%, on a net basis. We always have gross. We always have recoveries. We always have a net. So, that's like 2% odd.

Sudhanshu Jain: Yes, 1.8%.

V. Vaidyanathan: 1.8% right now, but maybe 2%. We are quite comfortable with 2% also. And since you know you provide for about 70% of that 1.8%. 1.8% becomes like ~1.4%, we guide for 1.6%. So, you think of it like that. But usually obviously needless to say, your home loans are probably slipped the least because just the nature of that cash flow assessment and customer profiles obviously are of a higher income profile. The more you go down the pyramid in the customer income profile, like your two-wheeler financing or let me say consumer durables, etc., you will have higher slippages, higher credit cost.

But we think of it in a very disciplined manner. We just don't want to run any business that really outstripped the whole book. Or we are not so greedy about income to post, etc. So, we want to be disciplined. We have a particular mix we play to. That mix has been very stable for long periods of time. And as a combination, we are quite confident that this number will cover gross NPA 1.38%, net NPA 0.44%.

Think of it. We will maintain it. And if it goes up, nothing ever stays stable forever. 1.30% can become 1.40%, can become 1.45%. But it's never going to become 2% or 2.5%. We will not give you those kind of shocks. It won't happen. I mean, it will be like in that zone. Because it's not going to come down forever because it's come down sharply. But think of it like stabilizing from here on, on those fronts.

Sudhanshu Jain: And just to add, you would have seen that slippages have slightly come off. But in terms of credit costs, there is also a function of recovery, right? So, while you may not have slippages, right, which sort of increase, but we are seeing that we had slightly higher recoveries in last couple of years, including the current year, which came from a COVID book, right?

V. Vaidyanathan: COVID book meaning the book that got charged up during COVID does not mean the provision taking of COVID which we were reversing. That's not that. Just the book that gets charged up for the COVID policy, we were getting recovery from that, not now.

Sudhanshu Jain: So, as some of this is tapering, you are seeing some normalization of credit cost.

Sonal Minhas: Yes, I understand that. And just a request. You have been brilliant in your disclosures in your deck as well. Typically, like good Banks, like I have seen in their decks, they have a code opening, closing schedule of NPAs, where you add back slippages, where you have technical write-offs, you have provisions, all of that in a single slide. I understand you started, I think, reporting the gross slippages as a footnote. It's just a schedule of the NPA at the opening closing level, which is like, I think, pretty standard for a good Bank. If you could include that in the deck, that would be great. That's a small thing from my side actually.

V. Vaidyanathan: We will definitely do that. But on slippage, things are pretty good. So, just one point I want to explain to you, for example. So, if you see one of our slides, we have disclosed now for 24 months in a row, we have given our collection percentage.

Now, you see number 99.5% there. Now, frankly, that number is a very important number, because if you keep 99.5%, you are only going to have 0.5% slipover to be 1 to 30, 31 to 60. And the next bucket. So, 99.5% is very important. But if you see the 99.5%, it is a composition of many products, which is coming as a composite one item. You could go to two-wheeler financing; you will see the 99%. If you see the consumables, you will probably see the 99 point something. If you see that the home loan probably will be 99.7%.

So, the composite comes to 99.5%. So, the products which are running 99% and not 99.5%, they will have a credit cost of maybe 3%, while home loan will have credit cost of probably 0.1% or something. So, the blend eventually becomes the credit cost, and that we told you 1.65%. We are quite comfortable with it. Don't worry about it. Except I am saying this now so that you all can expect it from us properly.

I wanted to be aware and comfortable with it, that Q1, Q2, because of the way the flow plays out, because I don't know if you remember or not, a couple of quarters ago, we pointed out that we moved over to a 90-day NPA recognition. We were earlier 91 days, because of some technicality. And therefore, the cycle works out in such a way that in Q1 and Q2, and also because of the FLDG matter I talked about, you will see a relatively higher credit cost, nothing like out of the ordinary, but just to tell you relative. And Q3, Q4, you will actually see it flattening it out. So, by Q3 & Q4, Income also will grow up, because the book would have grown; The credit card liabilities will happen; in Q3 & Q4 credit cost will come down.

So, that's why we are pointing out the fact that expect moderate performance from us, on a PAT front, next couple of quarters; for Q3 & Q4, expect better from us. And also, let me also point out to you that the core fundamentals, the core fundamentals meaning the liability growth, deposit growth, NPA, asset quality, all that are the core. Those are input parameters. That will be very strong, every quarter from now on for four quarters.

Moderator: Sir, we have one question from the line of Mr. Jai Mundra from ICICI Securities. Please go ahead.

Jai Mundra: Just a small clarification. You also I think clarified in part, but I think for the benefit of all, if you can suggest that this quarter we had a credit cost of 1.5%. Now we are saying that for the next two quarters it may go a little up, maybe 1.65% for the full year FY '25. But in the second half FY '25, it should decline, right? So, mathematically it looks like that first half FY '25 would have slightly higher slippages. Of course, a part of this could be normalization, but is that the understanding right that the credit cost may go up, but then it will come down in the second half? Just a small clarification.

V. Vaidyanathan: No, first of all, it is not like any slippage issues or nothing like that. First of all, just be aware that, I just want to take you back a little in time. If you notice any Bank has to disclose gross NPA and net NPA. We take it five steps back. We are showing the credit underwriting norms, then we are showing collection cheque bounce. Then we are showing a full trend of 24 months of collection percentage. Then we are showing our SMA. Then basically we are showing the full feeder that is coming into the NPA. Then we are showing product wise NPA. So, you can see the full chain transparently end-to-end at our Bank. You just don't have to see the NPA. That was number one.

Now in this flow therefore, to your question, so Q1 and Q2, the reason I told you, right, the technicality of the 90, 91 day etc., and also Chennai, there was this floods. So, on the JLG portfolio, the flow was relatively higher, but that's already started normalizing. But to some extent you will see, let me say a portion of that coming through in Q1. But these are like normal cycles that happen. Flood can happen somewhere, and people can pay and they can pay later. So, some of these are the reasons that you will find some technicality.

But so therefore, by Q3 & Q4, anyway like we said, if the fundamentals are strong and flows are strong, strong meaning the collection percentage continues to be like this, nothing will happen. By Q3 & Q4, you will see some normalization and you will see FLDG being absorbed by the FLDG partner. So, therefore, Q3, Q4 will look good and Q3, Q4 will not look like horrible anything like that, just be a little more elevated. But nothing that will disturb you so much, anything like that.

Jai Mundra: Sir, that is very, very helpful. We will close this call. If you have any closing remarks to make, please.

Sudhanshu Jain: Thank you everyone for coming on Saturday. The call went for almost one and a half hours. Thank you for being patient and have a great weekend.

V. Vaidyanathan: Thank you very much and this is a full five years. The merger happened in December of '18. So, March 31, 2019, was the first financial closing. So, this is exactly five years. You have been very patient with us. I must say very, very patient. I don't know, we enjoy a lot of your goodwill, and we want to, even when numbers are like really bad, not just the bad loans, our operating profits very bad initially for the first two years, you supported us even then. We thank you for that and we feel that next two, three years, four years, if you stay steady, we will live up to your goodwill and trust.

Moderator: Thank you.

V. Vaidyanathan: Thank you. Thanks, everybody. Bye.

Sudhanshu Jain: Thank you.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.