IDFCFIRSTBANK/SD/117/2022-23

August 4, 2022

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C - 1, G - Block
Bandra-Kurla Complex, Bandra (East)
Mumbai 400 051.
NSE - Symbol: IDFCFIRSTB

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Fort
Mumbai 400 001.
BSE - Scrip Code: 539437

Dear Sir / Madam,

Sub.: Transcript of Earnings Call for the quarter ended June 30, 2022

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, please find enclosed the transcript of the earnings call for the quarter ended June 30, 2022 conducted after the meeting of Board of Directors held on July 30, 2022, for your information and records.

The above information is also available on the Bank's website at the following link: https://www.idfcfirstbank.com/content/dam/idfcfirstbank/pdf/financial-results/Concall-Transcript-Q1-FY23.pdf

Request you to take the above on record and acknowledge receipt of the same.

Thanking You,

Yours faithfully,
For **IDFC FIRST Bank Limited**

SATISH ASHOK GAIKWAD

Digitally signed by SATISH ASHOK GAIKWAD
Date: 2022.08.04 15:55:00 +05'30'

Satish Gaikwad
Head – Legal & Company Secretary

Encl.: As above

"IDFC FIRST Bank Limited Q1 FY23 Earnings Conference Call"

July 30, 2022

MANAGEMENT:	**MR. V. VAIDYANATHAN – MD & CEO, IDFC FIRST BANK LIMITED** **MR. SUDHANSHU JAIN – CFO & HEAD CORPORATE CENTER, IDFC FIRST BANK LIMITED** **MR. SAPTARSHI BAPARI – HEAD, INVESTOR RELATIONS, IDFC FIRST BANK LIMITED**
MODERATOR:	**MR. KUNAL SHAH – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the IDFC First Bank Q1 FY '23 Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Shah. Thank you, and over to you, sir.

Kunal Shah: Thank you, Mike, and good evening, everyone present on the call. Today, we have with us Mr. V. Vaidyanathan, Managing Director and CEO; Mr. Sudhanshu Jain, CFO and Head of Corporate Center; and Mr. Saptarshi Bapari, Head of Investor Relations from IDFC First Bank to discuss the Q1 FY '23 earnings. Over to you, sir.

Vembu Vaidyanathan: First of all, thank you very much, Kunal, for organizing this for us. And for all of you investors who have joined us this evening, thank you. I think in a way, you've been very patient investors with us in a way we've tested the patience I think, for the last 3 years with one issue or the other. But in a way, I must say, you passed the test, and we tested you hard. I think that we've come a long way and now we can quite confidently say that the foundation is well built for the bank. We have a really strong deposit base, 50% CASA. We're able to raise deposits quite comfortably now. Of course, we even raised it during the period of COVID, over Rs. 25,000 crore, so, that should give us some confidence. But the fact that we're continuing to raise strong deposits even after dropping interest rate is really heartening for all of us at the bank. Now with the deposits, let me say, thats one of the foundational items for a bank to be able to raise deposits, which we were now able to raise.

Now on the lending side, frankly, we always felt that we already had a tried and tested model that has been running in the combined history of both banks put together, so to say, for close to 10 years now. Our loan book has been compounding by about 30% for quite a long while. And that machine is holding up very well, both the ability to disburse and more importantly, the quality of that lending continues to be strong. Later in the conversation depending on where the conversation goes, we'll share with you specific indicators about how each of the items about the so-called through-the-door population, i.e., the quality of origination, quality of customers coming into the bank, we'll share that with you. We will share with you how these customers are bouncing their cheques or what the trend is on presentation.

Number three, on presentation, if they return, we go and collect, so what are those percentages. Number four, how are the vintage cohorts looking like. We'll share all the data with you how the conversation goes depending on your level of interest. But let me just say that all those numbers are looking very good, and that gives us a picture that is directly translating into what the SMA numbers for the bank are. Again, the SMA numbers of what the numbers were, let me say, even pre-COVID, people thought that "oh, have we caught with COVID," pre-COVID. We're not caught up, it's like better. So, SMA-0, SMA-1, SMA-2, literally product after product, segment after segment and at the overall bank level, they're all lesser. Now naturally, if SMA is low, then flow into NPA will be lesser.

So, we are quite confident when we give guidance that our credit loss for this year will be less than 1.5% or when we guide for the retail NPA to become less than 2%, all of them have a basis. We've just not been saying it without basis. So, the short point is, therefore, that the asset quality numbers are looking quite good.

The third item, if you move on from deposit, assets and asset quality, I'll move to the fourth item that comes to profitability. Now as far as profitability is concerned, again, I think something is very significant about our bank, I'm not sure how many of you've spotted it. But if you've noticed for the last 3 years, our loan book has not grown very much, it has grown by 6% compounded 3-year CAGR. But I don't think people have really spotted that the operating profit of the bank, the core operating profit that is ex-treasury, that number, especially because we all know trading income is trading income, you can't count on it. But if you noticed FY 2019, let me say, the annualized H2-FY19 pre-operating profit, both Capital First and IDFC Bank put together post-merger was Rs. 1,105 crore.

Now 3 years have gone by, we've spent a lot of money building various capabilities and all that. But despite all that, our operating profit has risen to Rs. 2,753 crore, and that's grown at CAGR of 36%. So, core operating profit growing at a CAGR of 36% year-on-year feels good for us and gives us confidence in the business model we're building. And the second thing is that last year in FY '22, our core operating profit, that is basically NII plus fees minus OPEX, that has risen by 44% YOY. Now we are feeling within us that this number in FY '23 should rise by another 45-odd percent and our own internal modeling says that into FY '24, this could rise by another 45%.

So, if the core operating profit starts compounding like this, I think it really augurs well for the bank. Now after core operating profit, comes the provisioning line and then rest of it in P&L, so I'll just take it in that way.

Now when we come to the provision line, we had pointed out to you that despite the second wave when there was no moratorium and our provisioning norms required us to take the provisions, despite such a serious first quarter of last year, our overall credit loss for the last year was only 2.5% of the total funded assets.

Now this year, we have guided for the same at 1.5%, and frankly, we feel we'll meet that very comfortably. And therefore, with this sort of a strong operating profit opening up for the bank, if our credit loss is 1.5%, rest of the math you can do about what it will do to the ROA and ROE. Therefore, when we look at the ROA, I think one of the very significant events that has happened in our life right now is that the core, let me say, the pre-provisioning operating profit last quarter was nudging Rs. 1,000 crore, I think Rs. 980 crore. Sudhanshu will take you through when he sees the numbers, so Rs. 986 crore, let me round it off Rs. 1,000 crore., So Rs. 1,000 crore of pre-provisioning operating profit for the bank is really fantastic. It gives us a lot of confidence. And therefore, even if you take a normalized provision credit cost of 1.5%, it gives us a lot of space for profitability. And I want to take you back in time for 2 quarters to just tell you how much progress the bank has made that in the first 4 or 5 quarters of the merger of the bank, the issue was not provisions, the issue was bank never had enough pre-provisioning operating profits.

So, provision normally for like for any reasonable good bank is same 1% - 1.5% of average book. But our problem was that we never had the operating profit. So, therefore, for example, last Q1 of FY '22, when the COVID second wave happened, at that point of time, we had provisions, but we didn't have enough operating profit. Now for the bank to have an operating profit of Rs. 1,000 crore is a very big thing because now we have the space to be able to take normalized provisions and be profitable. It is frankly our read that our bank will never post a loss again in its life.

I'm carefully caveating by saying "I feel"**;** the reason just because to be technically and legally right. But otherwise, genuinely, we don't think it will happen again because now we have very, very strong operating profits, which means that our bank will continue to now compound equity, which we can very confidently and safely say now up. That now translates to return on assets. But before I go to return on assets , let me just read out 4 numbers to you, if that will help you understand this. The Q2 of FY '22, our PAT was Rs. 152 crore. Q3, it jumped by 85% to touch Rs. 281 crore. Q4 FY '22, our PAT increased to Rs. 343 crore. Now Q4 FY '23, our PAT has gone up to Rs. 474 crore. And by the way let me share with you, there is nothing in this income that you should worry about generally, is it onetime and all that, nothing material. So, that gives a color about where the story is headed. Now that translates to return on assets.

When you translate that, our ROA in Q2 FY '22 was 0.37%, Q3 was 0.64%, Q4 was 0.77% and Q1 FY '23 0.97%, let me round it off to 1% for convenience. So, just think, see where the ROA is moving so fast upwards. So, it gives us confidence that there is no one-timer sitting in this. It gives us confidence that this story can progress up for a while. So, many of you who have been disappointed with us saying that "oh, you guys are never making profit," and for those of you who feel like that, I must say, by the way if you look at it, it's not that 1% is greatly impressive. I mean, a good number should probably be 2%. But what you should watch is not that 1%, it's a good landmark. But what is more important is the direction, and the speed at which this is getting fixed and it is getting addressed is something we should take note of. In fact, there's a couple of global research reports who always look at us and say, "you guys are making no ROE, why should you be valued at 1.2x book," I think they're fundamentally making a mistake because they're looking at today. You have to look nearly 2 years forward, and let me tell you, you'll probably surprise yourself.

Now the other thing is return on equity. On return on equity, it is basically that our ROE in Q2 FY '22 was 2.97%, Q3 '22 by the way, I'm talking sequentially quarter and not like year-on-year and all that, the sequential quarter, 2.97% moved to 5.44%. Then Q4 FY '22 has moved to 6.67%. Q1 FY '23 moved to 9% touch and go. So, I hope it should not be a surprise for you when we say we'll guide the Q4 of this year, one of you asked this question what the ROE will be and I told you double digit. Our own sense is that we'll get there even before Q4. We like to probably advance the guidance if it's something like that.

So, the short point is that some of you have been disappointed with our profit number. But I must say that not that we had a choice because there were just so many lumpy assets to deal with. We couldn't push them under the carpet. We had to deal with them, whether it is Dewan, Reliance Capital, some infrastructure loans, some South India-based companies, the unfortunate case of suicide, all of these are legacy accounts. We had one large retail chain on which we had exposure that's been in the news for the last few months in the large legal fight. We had exposure there, that's also a legacy account. So, one after one after the other, we have dealt with every one of them. I can tell you confidently there's nothing left here.

Now for those of you who don't feel confident about it, you can watch the results for a quarter or 2, you'll get the confidence. So, with that, as the legacy issues out of the way and the core operating profit opening up the way I described to you in terms of ROA, ROE, it shouldn't be surprising for you that our profitability is increasing. So, I can, therefore, say that we are looking forward to a very, very good FY '23. We don't expect to give you any surprises. And if you were within the walls of this office, you'll probably get a feeling that we are internally feeling very, very confident. So, I'm feeling good about the upcoming year and maybe '24, '25 and so on because I don't think there's any surprise left here. So, that's about it. Thank you very much for taking the call today, and I'd request Sudhanshu to maybe throw some more color into the discussion.

Sudhanshu Jain: Thanks, Vaidya. Good evening, everyone, and welcome to the con call. I'm happy to share the financial results of Q1 FY '23 with all of you. The overall balance sheet size has crossed Rs. 2,00,000 crore in this quarter and grew by 19% on a Y-o-Y basis to reach Rs. 2,00,565 crore. So, overall funded assets, which includes loans and advances and credit investments, grew by 21% Y-o-Y and 6.7% sequentially to Rs. 1,37,663 crore. Within that, the retail and the commercial book together grew by 36.8% Y-o-Y and 9.5% sequentially to reach Rs. 1,01,309 crore.

Home loans registered the high growth at 61% on a Y-o-Y basis. Mortgage book, which includes home loans and loans against property, now constitutes 33.5% of the overall retail and commercial book. The rural book, which includes funding to self-help groups, Kisan credit cards and small enterprise loans, also grew strongly by 29% on a Y-o-Y basis. This segment is bouncing back strongly post the impact felt in wave 2. Speaking of our credit card business, the bank has issued more than 1 million cards since we started this business in January '21. The credit card book worth Rs. 2,315 crore on June 30, up by 183% on a Y-o-Y basis. Even the credit card spends have increased by 20% on a sequential basis. We are clearly increasing market share here.

With respect to wholesale assets, the non-infra corporate loans grew by 12% on a Y-o-Y basis and by 1% on a Q-on-Q to Rs. 23,970 crore. We will continue to grow this book in a risk-adjusted manner. The infrastructure book degrew further and reduced by about 35% Y-o-Y and by 2% Q-on-Q to Rs. 6,739 crore, and now forms nearly 4.9% of the total funded assets as compared to 22% at the time of merger. From a risk standpoint, borrower concentration has also improved significantly, the exposure to top 20 single borrowers reduced from 16% in March '19 to 9% in June '22.

Moving on to the liability front. The CASA deposits of the Bank has increased by 22% Y-o-Y to Rs. 56,720 crore. The CASA ratio is stable at 50.04% as on June 30, 2022. Average CASA deposits also grew by 10% on a Q-on-Q basis. Outstanding term deposits grew by 20% on a Y-o-Y basis. With that, the overall customer deposits grew by 21% to reach Rs. 1,02,868 crore. The bank had excess liquidity and maintained an average LCR of 128% during Q1 as compared to 136% in the previous quarter. This is still well above the regulatory requirement. The branch count now stands at 651 branches along with 807 ATMs. The bank opened 10 branches in the current quarter and has opened 50 branches in the last 1 year.

The bank has substantially granularized the liability base since merger as CASA and TD less than Rs. 5 crore stands at 83% as on June 2022. The bank has also successfully repaid high-cost legacy borrowings of Rs. 5,530 crore in last 1 year, including Rs. 2,775 crore in the current quarter. The total outstanding of such high cost legacy borrowing stands at Rs. 22,406 crore at June 30, 2022.

Moving on to asset quality. The gross and net NPA of the bank improved to 3.36% and 1.30% as on June 30, 2022, as compared to 3.7% and 1.53% as on March 31, 2022, reflecting an improvement of 33 bps and 21 bps, respectively. The decline in GNPA and NPA on a yearly basis was much sharper by 125 bps and 102 bps respectively. The provision coverage ratio, including technical write-offs, also improved to 73.13% at June 30 as compared to 70.29% at March 31, 2022 and 61.06% at June 30 last year. The gross slippages for the quarter were lower by 20% on a sequential basis. And in fact, slippages net of recovery/upgrades were lower by 25% sequentially.

In the retail and the commercial segment, the GNPA and the NNPA came down significantly by 51 bps and 22 bps sequentially, to reach 2.12% and 0.93%. We are happy to share that we are already trending around the long-term sustainable target in the segment of GNPA, as Vaidya mentioned. In the corporate book, ex infra, the GNPA at 3.67% and NNPA was only at 0.2% as compared to 2.75% and 0.31% as on March 31, 2022. This book also had a high provision cover of 97% as on June.

The increase in profit NPA by 92 bps during the current quarter is primarily because of loans to one large legacy retail chain group, which slipped into NPA out of the existing restructuring pool. It may be noted that bank has made 100% provision against this retail chain group on a prudent basis. Again, happy to report overall restructured book as a percentage of total funded assets has reduced to 1.3% now as compared to 1.8% last quarter. The SMA on the wholesale book is less than 0.5% of the book at June 30. Even on the retail and the small business loans, as Vaidya mentioned, the SMA position has further improved as compared to the previous quarter.

Coming to the profitability. We are happy to share profit after tax grew to Rs. 474 crore from a net loss of Rs. 630 crore reported in Q1 last year. Sequentially also, the increase was from Rs. 343 crore to Rs. 475 crore, which is a growth of 38%. This was largely driven by strong growth in operating income and lower credit costs. Within that, the NII grew by 26% Y-o-Y to Rs. 2,751 crore. The net interest margin was 5.89% for Q1 '23 as compared to 5.50% in Q1 last year. Fee and other income witnessed a strong increase by 100% Y-o-Y to Rs. 899 crore. Of course, Q1 '22 was COVID-impacted quarter and hence, this increase looks a bit higher. However, even on a sequential basis, the fee income has increased by 7%. The retail fees contributed 92% to the overall fee and other income, and it is quite granular.

Fee income from toll and credit card was at 16% in Q1 FY '23 of the total fees within the overall fees. We have given more details around the fee breakup in the investor presentation. The bank had a trading loss of Rs. 44 crore in Q1 FY '23 on account of sharp increase in market yields as compared to a trading gain of Rs. 393 crore in Q1 FY '22 and a trading loss of Rs. 9 crore in Q4 FY '22. Recognizing the heightened market volatility, the bank proactively tightened its limits and reduced the treasury book. The modified duration of the AFS and HFT book was lower at 0.82 years on June 30, '22.

Moving on to the core operating income, excluding trading loss increased by 39% Y-o-Y to Rs. 3,650 crore aided by strong NIM fee income growth mentioned before.

Operating expense grew by 31% Y-o-Y to Rs. 2,663 crore in Q1 FY '23 from Rs. 2,032 crore in Q1 FY '22, and was marginally lower from Rs. 2,674 crore in Q4 FY '22. The increase in OPEX on Y-o-Y basis was relatively higher on account of low base effect in Q1 FY '22 due to the pandemic. The cost-to-income ratio excluding trading gains improved to 72.95% in Q1 FY '23 from 77.16% in Q1 FY '22 last year and by 323 bps as compared to Q4 FY '22. As a result of the above, the core operating profit, excluding trading gains, grew by 64% Y-o-Y and 18% Q-on-Q basis to reach Rs. 987 crore from Rs. 601 crore in Q1 FY '22 last year. Provisions were also lower by 84% and 17% on a Y-o-Y and Q-on-Q basis, respectively, and stood at Rs. 308 crore in Q1 FY '23.

The credit cost on a quarterly annualized basis as a percentage of average funded assets for Q1 FY '23 was 0.9%, which is well within our guidance that was given for FY '23. On a quarterly annualized basis, the ROA for Q1 has touched nearly 1% and ROE has reached 9%. ROA improved by 20 bps and ROE increased by 228 bps from the previous quarter. On the last segment, with respect to capital adequacy, the bank has maintained strong capital adequacy and its capital adequacy, including profits for Q1 FY '23 was at 15.77% as on June 30, 2022, with a CET ratio at 14.01%. The current quarter capital adequacy had an impact of 58 bps on account of recomputation of ops risk RWA, which is taken in the first quarter every year and then its static for the rest of the year. Even at 15.77%, the bank is well above their regulated threshold and look forward to grow the book in a profitable manner.

With that, we can move to the Q&A section.

Moderator: We will now begin the question and answer session. We have the first question from the line of Ishan Agarwal from Erevna Capital. Please go ahead.

Ishan Agarwal: My first question relates to the NII growth quarter-on-quarter. So, the NII growth quarter-on-quarter stands at around 3%. I think since the time of the merger, this is the lowest Q-on-Q growth in NII and maybe the first time decline in NIMs quarter-on-quarter. Is it because of lag in passing on the increase in cost of funds on the lending side during the quarter or is it structural in nature?

Vembu Vaidyanathan: No, we have a lag in passing on. So, this quarter, we'll be passing it on. So, this will get fixed.

Ishan Agarwal: So, again, we should be on an upward trajectory from Q2?

Vembu Vaidyanathan: Yes.

Ishan Agarwal: So, going to the next question, provisions at Rs. 308 crore in the quarter look extremely low. That's around at 1% of the average book.

Vembu Vaidyanathan: 0.9%.

Ishan Agarwal: Yes, sorry 0.9% of the average book. Are there any write-backs or one-offs in the provisions for this quarter?

Vembu Vaidyanathan: No.

Ishan Agarwal: So, again, from this question, your press release mentioned that the bank is well on track on its guidance of 1.5%. So, should we assume that the provisions for Q2, Q3 and Q4 would be higher than 1.5% for the annualized credit cost to be at 1.5%?

Vembu Vaidyanathan: No, that's a good question. But we don't change guidance just because we had a great quarter this time. So, let's watch the rest quarters. But we don't see any reason why credit loss in the subsequent quarter should go up any materially. So, our own internal sense is that we'll do better than 1.5%.

Ishan Agarwal: So, could it be 1% to 1.1% for the rest of the year?

Vembu Vaidyanathan: It could be. That would be a fair guess, but we don't want to put it out because we don't want to lead up everybody down that road and just in case there is an odd blip on this side. But yes, I mean, right now, it is 91 basis points for the quarter, which I hope you'll agree is probably very good for --

Ishan Agarwal: Very, very good, yes.

Vembu Vaidyanathan: -- the kind of yield we get on a book. So, yes, we don't expect it to materially go up, but then we don't want to change guidance based on 1 quarter.

Ishan Agarwal: So, barring any unforeseen circumstances, we could expect it to be 1% to 1.1%?

Vembu Vaidyanathan: I think so, yes. That would be our internal guess.

Ishan Agarwal: Again, the next question is actually on the OPEX front. So, OPEX has seen a Q-on-Q decline in absolute terms. How do you see the trajectory on OPEX for the next 3 quarters?

Vembu Vaidyanathan: Every quarter will go up a little bit. But this quarter, it didn't materially go up, but you should expect that normal quarter-on-quarter growth should happen….based on disbursals and all.

Ishan Agarwal: So, it could go up marginally every quarter from here on sequentially. So, you answered my question on the operating expense front.

Vembu Vaidyanathan: Sorry, we cut out. So, I don't know at what stage we cut out. But we won't say that normal quarter-on-quarter increase because there will be more disbursals in the subsequent quarters and naturally more upfront payouts and normal collection expenses, that kind of stuff, but nothing materially that should shake you or surprise you.

Ishan Agarwal: And on the savings account rate front, so we are offering 6% on savings account balances above Rs. 10 lakh. How much has that impacted our blended cost of funds on savings accounts? So, what would be the blended cost of funds right now on the savings account?

Sudhanshu Jain: Blended cost of funds on savings account would be 5%.

Ishan Agarwal: Just a suggestion, once you've shared the investor presentation, you do not need to read out the data points in the PPT during the call. That will maybe give us some more time for Q&A.

Vembu Vaidyanathan: We'll be careful next time. Thank Ishan for your comment and question.

Moderator: We have the next question from the line of Tushar Sarda from Athena Investment. Please go ahead.

Tushar Sarda: There's just one parameter of the bank, which I can't get my head around to is the total expense to assets ratio which is almost at 5%, 6%. And I think in terms of comparison, only Equitas Small Finance is higher than that. Even AU Small Finance is at 3.5% and the larger private sector banks are below 2%. So, can you just help me understand this?

Vembu Vaidyanathan: Okay. If you don't mind, you have to answer one question of mine, then I'll answer your question.

Tushar Sarda: Yes.

Vembu Vaidyanathan: Okay. What is the vintage most of the banks to compare it with?

Tushar Sarda: No, vintage is there, obviously. So, is it because of the vintage or is it -- that's what I want to understand. This one factor I don't understand.

Vembu Vaidyanathan: No, you answer my question. So, you say you take all the big 4 banks. How long have they been operating? At least 25 years, 30 years?

Tushar Sarda: Yes.

Vembu Vaidyanathan: So, when you put up a branch or an ATM, they take time to leverage. So, for all practical purposes, our 640 branches, you can call it had an average life or maybe 1.5, 2 or 3, they're not 20 years. So, the same branches, you can imagine when you -- the one thing I think many people are not able to get their head around or not get the perspective is that this is a new bank. So, we put up infrastructure as if we run established bank because we already at merger, we had a large loan book of Rs. 1,00,000 crore with no retail deposits. So, we went and put up the branches, but they've had a very short life yet. So, when these branches really scale up from here over the next 10, 15 years, you'll find that naturally all the cost measures will measure up with every other bank, it has to. That's on the liability side. On the asset side, again, I have ask you, I won't trouble you asking, but I'll explain to you that if you think of any of the large banks who have been around for 15, 20, 30 years, they probably have a very large mortgage book and the cost to assets on the mortgage book would be pretty low. So, we've just started. And most of our products are not exactly those lower rate, long duration mortgages. So, think of our products, for example, which are giving us, of course, better yield, which you can see in the NIMs, but they also have relatively high OPEX business on the asset side. Think of any product we have, let me say, durable financing or 2-wheelers or used car or new car or loan against property, of course, is low or stuff, you get the drift. So, therefore, the products would have a little higher OPEX on the asset side. Our branches and on the liability side are definitely new and they've not lived the life of 20, 30 years of like other banks. So, as the vintage of this bank plays out, they'll all normalize.

Tushar Sarda: Sir, I'll have a follow-up on this. So, that's why I compared to AU Small Finance also, which is similar kind of business, which is 3.5% and capital first has a history. IDFC may not have but you obviously had the infrastructure and the history, right? And your size is also big. It's not that the size is Rs. 20,000 crore, and therefore, the expenses will be high, you're a Rs. 2,00,000 crore. So, you're one of the larger banks in that sense. So, that's why I wanted to understand because all other parameters, it ticks the box fantastically. It's just this one parameter, if you can explain a little more, that should be very helpful.

Vembu Vaidyanathan: No, no, it's my job, and I'll explain properly. I didn't mean to throw you off balance. So, let me answer the question. So, on the liability side, my answer is pretty much what I told you that the branches have not yet scaled up. So, if you think of a branch, for example, per branch, let me say, if you give us a longer vintage, see, at the end of the day, let's not forget, we are living and operating in the same country, we are hiring people of similar cost structures, our branches, what we pay for premise is similar. So, there's no reason our bank cost structure should be different than any other bank. They're all the same. At least all the leading private sector banks, all give or take in the same ballpark. So, only and only on the liability side is only about scaling up, which will happen. So, I'm not troubled at all on that front. I hope you'll agree with me.

Tushar Sarda: I have just one clarification there. I'm assuming Rs. 3 crore cost per branch to operate. Is that fair? Or is it more?

Vembu Vaidyanathan: Lesser, let's call it, it will be Rs. 2 crore, Rs. 2.5 crore, somewhere there depending on the size of the branch.

Tushar Sarda: So, 650 branches means around Rs. 2,000 crore you spend on branches, right? Out of Rs. 10,500 crore, that's the annual run rate.

Vembu Vaidyanathan: So, we can do the math there. But I'm just saying that you get the drift. Let's just get the concept out of the way. So, on the liability side, they will scale up like any other good bank. And because we offer slightly better rates, probably that'll scale a little better than any other good bank, okay? Like any other banks. So, let me just say that. Liability side is easy to understand because same markets, cost structure is similar. Now on the asset side, the product suites we have definitely have higher cost structure -- let me take one of the large banks in the country, they'll probably have a Rs. 5,00,000 crore home loan book, which some of us, myself, maybe my colleagues that must have started like 20, 25 years ago, maybe 20 years ago. So, by now it must have really scaled up to a really big piece. So, obviously, if you look at our home loan book today, our cost-to-income ratio on home loan book is probably like 90% or something. So, basically, because I mean particularly the prime home loans that we started maybe about a year ago. Because yields are just about 7%, 7.5% or something and then the NIMs are pretty low there.

And then today's OPEX, of course, we leverage it over the next 8, 10, 15 years. Obviously, next generation who all run the bank will get to see very low cost-income ratio on that front. But today, people who are building it will incur the expense and will have to live with the higher cost structures on that product, say, in home loan, for example, so to start with today, I mean as the year goes by, it will all get even out.

Now let's talk about other products because we've started. So, as far as other businesses are concerned, let me say, a JLG business, they have about Rs. 8,000 crore business there, it's fundamentally a higher cost structure. So, if you take a car financing business, at least a used car one, a relatively higher cost structure. So, it is true that our asset structures have a relatively higher cost and our liability of course, I described here we just started.

Then the third business we started is the credit card business. As we see speak, credit cards is loss-making. So, in other words, the cost to income ratio in credit card is in excess of maybe 130%, 150%. So, therefore, all of these things tend to put a load on the cost to income ratio. But honestly, I am personally not troubled about this because that's how businesses are built. If I run away from doing these things under investor pressure, then the bank will never get built.

Tushar Sarda: No, that's not my idea. My idea is to understand. So, I mean this is an opportunity for us to understand from management what is their take.

Vembu Vaidyanathan: I know, that's not your idea, but I'm trying to explain to you that it's -- so coming back to the point, therefore, some of the business we built, are built for the future. So, our job as leaders of the organization is to get the payback. So, on the liability side, I have no confusion in my mind. Payback will happen and scale happens and as we start doing cross-sell. So, as a bank, we just started this process of cross-sell. We were just a liability gathering machine until maybe a year ago. So, we now put up the structure. We've enabled the people to cross-sell other products and services. We have tiered the customers. We are under Tier 1, 2, 3, 4. We are throwing up the necessary customer offers on the RM screen so that they can discuss the next suitable product for the customer, et cetera. So, our processes have just begun to gather steam. We are probably underperforming -- not probably, we're certainly underperforming on the extent of cross-sell we are doing to our customers on the liability side, that machine is gathering up. So, that will solve some of the issues. Credit card will solve the issue. And I mean -- solve the issue meaning as it turns into profit, it will happen. So, as part of management, our job is to turn these -- once we set up the businesses and incur the expenses, our job is to now bring them to profitability. It's a phase, well, it will happen. And you can see it quarter-on-quarter, we will share numbers with you.

Tushar Sarda: So, over 3 to 5 years, what one should expect in terms of cost to assets, not cost to income, but cost to total balance sheet size?

Vembu Vaidyanathan: No, you should come back to cost to income because the cost to assets it depends on the line of business you do. I mean, I could do a lot of….

Tushar Sarda: In cost to income, what do you think? You are at 75% today, right?

Vembu Vaidyanathan: Yes, somewhere there. So, you can see every quarter now, if you take Y-o-Y, it is coming down, it will still come down. You see, we have done the math. In our kind of line of business, if we bring down cost income by 10%, our return on equity increase will jump by 5%.

Tushar Sarda: It will be phenomenal. That's the reason I asked this question.

Vembu Vaidyanathan: No, it will come down. You just watch this game. It will come down, it has to come down because income will go up. I told you, just to summarize so that--

Tushar Sarda: I don't have any issues with all that. I completely agree with you on that. Only this part was troubling me. That's why wanted to know. So, 75%, one should expect say it will come to 50% or 60% ballpark in 3 to 5 years?

Vembu Vaidyanathan: No, no, definitely. I mean, we can't be at this number. It's all set up cost to income, so to say. We think that definitely in the long run, we want to be certainly in the mid-50s, but certainly, we don't want to wait that long, long run. Even if you take, say, a 2-year window, we do think that within 2 years, it should materially come down. And you see our ROE has already touched 9%. And this is core and onetime and all that. We touched no other lever and just pay off the high-cost legacy liabilities, that should give us about Rs. 750 crore. And then you reduce cost to income by other means we talked about, you should expect the bank to get to the mid-50s in the long run, but certainly, maybe mid-60s in the next couple of years.

Tushar Sarda: And I have just one more feedback for you. I'm IDFC FIRST Bank customer. Your new app is phenomenal, but the downtime is very high. So, maybe you would want to look at it.

Vembu Vaidyanathan: No, thank you. We are very aware of that.

Tushar Sarda: If you are aware, then that's fine.

Vembu Vaidyanathan: No, no, but thanks.

Tushar Sarda: I'm sure, you'll fix it.

Vembu Vaidyanathan: No, we will fix it. So, just before you go, since you said that, frankly, we are very proud that we put out a really good app.

Tushar Sarda: It's a phenomenal app. I like it. But when you want to actually do the transaction, sometimes -- in fact, many times it doesn't work.

Vembu Vaidyanathan: That's why I talked to you. Just to tell you that was an issue you must have faced until a week ago for maybe it was there because it is a starting --

Tushar Sarda: Even yesterday, I think I faced an issue.

Vembu Vaidyanathan: Yes. Yes. Just on the launch. But now it is fully stabilized. I'll be surprised if you say that if you try it today. It's unlikely. It's already addressed.

Moderator: We have the next question from the line of Pritesh Bumb from DAM Capital. Please go ahead.

Pritesh Bumb: Just a medium-term question. So, how do you look at deposit rates for us as you know that we are in the up-cycle? So, do we feel that we'll have to be a little ahead to raise the rates versus the industry? And say, hypothetically yes, is there any room in the mix to keep the NIMs intact? So, that was the first question.

Vembu Vaidyanathan: No plans really right now. Whatever it is, it is. I mean, as we speak, there is no such discussion going on within the bank.

Pritesh Bumb: So, we'll be ahead of the market or we'll be watching out basically. How do we see that? Because the CD ratio is still higher than the loan side. So, do you feel like we may have to raise something ahead of the markets?

Vembu Vaidyanathan: No. Sudhanshu, you want to answer?

Sudhanshu Jain: Yes. Sudhanshu here. On the CD ratio, yes, it's relatively higher than other banks. But you need to note that we are carrying high-cost legacy borrowings, right, in the form of long-term bonds, refinance, right? These were taken or which came to the bank at merger, right? While we have reduced these borrowings, but to that extent, the funding requirement was lower, right? So, if we include these long-term stable borrowings in the denominator, then the CD ratio gets adjusted to about 80s, right? So, once these sort of liabilities gets paid off over the next 2 to 3 years, and we sort of get deposits in way of replacement, then automatically, this ratio should correct in due course.

Pritesh Bumb: And second part of the question was that do we still have room in our mix to increase NIMs from a yield perspective, if you also don't pass on some of the rates which coming hypothetically, again. So, any mix changes we can do or see the NIMs impact on yields moving up a little bit?

Sudhanshu Jain: So, Pritesh, as you see, our NIMs are quite healthy, right? It's at 5.9% in this quarter, right? We are seeing sort of rate increase, which has happened, some of it may more happen, right? But as Vaidya mentioned, we have not passed on the increase in repo rate to customers, most of that benefit would start kicking in from Q2. So, we will be fairly comfortable in terms of maintaining NIM around the 6% mark. And we feel that should happen.

Pritesh Bumb: Second question was if you are disclosing, what will be our technology cost as a percentage of OPEX? Because some of the banks are disclosing this, can we also have that number?

Sudhanshu Jain: So, we have not specifically called out that number, but we continue to invest in technology, but we have specifically not called out that number.

Pritesh Bumb: Any sense on if it will be a higher number as a percentage….is it material or is it not to worry about? Just trying to understand, we have built the bank on the technology side for some time now. So, do we see that the technology cost will slightly move down in terms of plateau, so that's what I was getting at.

Vembu Vaidyanathan: Probably plateau from here, but you see, I'll tell you, yes, first of all our technology cost is probably a bit higher and I'll tell you the reason also. Again, we should not forget the fact that -- let's think of any large bank who've been there for say 20-25 years, they already have a cash management system. If we launch cash management, we will build it today. Savings bank, they'll already have probably an app. We have to build an app from starting today because we can't tell our customers that. Then similarly, if somebody has already built a solution for current account management for the customers, we have to build today.

So, the point is that there is a certain set of capabilities that an organization need to have, it is simply stable stakes. The one thing we should not forget is that we became a bank overnight with Rs. 1,00,000 crore of assets, right, with it's just like an NBFC converting to a bank because both parties were just lending institutions. So, therefore, some portion of expenses are simply just catch-up expenses that as a system for building basic capabilities that others already have for 15, 20 years.

Now second part of the capabilities are to build digital capabilities for being contemporary and staying ahead and all that stuff. So, we are probably incurring both, which is why you're probably seeing this, but you should also see -- so I don't deny that. But it's just for you to understand origin of this organization is very, very different than any other organization, which is a small NBFC, which has got a bank license, in which case, it can scale up everything along as the businesses grow, but this origin is different.

But let me also point out to you that the expense or no expense, you see how quickly our story is building up from here in terms of operating profit. I read out the numbers to you. Now the way our ROA, ROE is getting fixed at a bank level, it should now set you thinking that if this bank starts normalizing its expenses like everybody else, where this game might head. I think it will look really very healthy. I mean for us, a 2% ROA is something that, frankly, is a bit an under ball for our kind of bank.

Pritesh Bumb: Last question was, if you look at the recent numbers of large banks, we have seen a solid unsecured growth in all the banks. Do you feel the marketplace? Or do you feel that you will get -- you will take a step back just to see how the market is shaping up because it seems to be getting overheated on the unsecured side? Or do you feel like it's not a problem yet?

Vembu Vaidyanathan: No. We monitor our indicators very, very closely. We look at 2 things. One is the perspective we get out of our experience and by watching the market. And second data, what data speaks to us. And we watch it very carefully. We want to be very, very careful on this front. Our general assessment is that unsecured is one dimension, it is not the dimension, it's not God. So, basically, it is just one way of looking at it. For example, we find that when we lend a personal loan to a Infosys or a Wipro or Unilever or a good Cat-A company, frankly, even through COVID, there was no default on them. Many of them didn't even take moratorium. So, that's unsecured, but it did very well.

So, the point is that vis-a-vis let me see a 2-wheeler business, which is secured but had trouble during COVID. So, therefore, our job is not just to evaluate these things bluntly by one dimension, it is to see the underlying profile of the customer that we are lending to. It's a very material point. One more thing is about cash flow. How do you evaluate them? So, if we evaluate them for the cash flow, it behaves a particular way. At the end of the day, cash is paying you back, security is not paying you back. So, I'm not saying it's an immaterial point that thing, but I just want to put in perspective.

Moderator: We have the next question from the line of Sagar Shah from PhillipCapital. Please go ahead.

Sagar Shah: My first question, sir, has already been I think asked. I have a couple of questions regarding your operating expenses actually. As you have already spent in technology and as you are guiding that actually, as the income grows actually automatically, you said that on the OPEX front, automatically, your income growth would be higher than your OPEX growth, and that would be a driver of the ROE, right? Am I right, sir, at least into next year?

Vembu Vaidyanathan: Sudhanshu, you want to answer? I didn't hear the question fully.

Sudhanshu Jain: So, you're saying whether the income growth would surpass the OPEX growth. Is that the question?

Sagar Shah: Yes. Basically, as you have guided for the next year for a double-digit ROE, if I'm not wrong in the last quarter. So, for double-digit ROE, as my understanding is 2 key growth drivers are, first of all, your income growth, and secondly, your lesser OPEX growth. So, I just wanted to understand on that part. My first question is on this.

Vembu Vaidyanathan: So, we think both will play out. It's not one for the other. Our cost should moderate from here. And secondly, income will grow. It's a very simple model. If the retail book grows by maybe 25% year-on-year which is what we've guided and frankly, we feel we'll meet it comfortably. We don't have to do anything. We don't have to put pressure on ourselves. We don't have to run extra hard. Nothing we have to do. It will just happen by itself in a very a smooth manner. So, when that happens, automatically income goes up by 25% and straightforward to operating leverage. I mean, we are not obsessed about this double-digit ROE. Let me just tell you, we'll surprise you a little maybe ahead of time. But certainly, fourth quarter ROEs, you can take it as a assured thing, I mean assured meaning whatever you make of it, but we're feeling good about it.

Sagar Shah: And my second question was on your cost of funds actually. I wanted a color on your -- now by 20th July, you have reduced the interest rates on the SA accounts and the term deposit accounts. So, your incremental cost of funds blended on borrowings and deposits and roughly you can say how much will it be, sir, going forward?

Vembu Vaidyanathan: Maybe exact number, Sudhanshu can answer, but let's talk into the delta. In the delta sense, frankly, our business model is baked for these kind of cost of funds. We don't have to be like the big 4s that there kind of rate of 3% of up to Rs. 50 lakh and greater than Rs. 50 lakhs, 3.5%. We don't have to do this at least. Fundamentally, our yield is slightly better. Our origin is different.

And therefore, for us, we are comfortable with what we're paying right now. And even at that, we're getting a net interest margin of 6%, we are more than happy. We are not under stress to increase at all. So, we are happy with 6%. So, now it's a very simple game of just scaling up the book, nothing more. Just pay more than the others in terms of savings, which we will do. And frankly, you don't worry about it. If interest rates went up in the market by another 50 basis points, I mean we would not bet an eyelid, we will smoothly increase interest rate by 50 basis points, we won't think twice. For us, the model is very happy and comfortable. Not that we have any plans, as I said earlier. But you don't stress about these things because we're sitting on a margin level that is so strong. We still are yet to take out. We still have not, like I told you leveraged the assets or the cross-sell, a lot of income waiting to be there, a lot of new business is to be built, that has to scale up, wealth management will scale up, cash management will scale up, FASTag will scale up. They will all give income. So, when you have enough income sitting out there yet to be taken, a few basis points this side, that said makes no difference to us.

Sagar Shah: Got your point. Sir, next question was regarding your commercial finance portfolio. On the net debt, I think it has degrown by around 8% quarter-on-quarter. So, can you throw some color on the commercial finance portfolio? How you intend to grow in that space? Basically, how do you look at that portfolio going forward?

Vembu Vaidyanathan: We like the business in priority sector. And Sudhanshu, as you spoke to me just points out to me, it's already grown from Rs. 2,000 crore to Rs. 2,300 crore in the last quarter. So, that's commercial business?

Sudhanshu Jain: So, it's commercial finance book that has increased from Rs. 10,144 crore to Rs. 10,679 crore on a sequential basis.

Vembu Vaidyanathan: You didn't mean commercial vehicles. You meant commercial finance, is that what you said?

Sagar Shah: Yes.

Sudhanshu Jain: So, it's a marginal increase on a sequential basis. Of course, on a Y-o-Y, the growth is 13%. We feel that growth could be a bit faster in this segment in future quarters.

Vembu Vaidyanathan: So, just to correct myself, my apology. I thought you said commercial vehicle. That's why I read out some of them.

Sagar Shah: No problem, sir. And coming back to my previous question, sir, you had thrown the color on your liabilities, but can you throw us a number? And what is your blended cost now on borrowings and deposit, sir, going forward?

Vembu Vaidyanathan: Do you have the number?

Sudhanshu Jain: Yes, blended cost is about 5.2%.

Sagar Shah: 5.2%. And you envisage that it will remain the same for the entire year and even for going further?

Vembu Vaidyanathan: Yes. I told you not to bother about that too much. First of all, I'm not ducking that question. As of now, we feel that the rates are what they are, we are comfortable. But like I said earlier, if yields in the market rise for any reason, we have no problem touching it by 20, 25 basis points here or there. No problem at all. I told you the kind of margins sitting on the kind of buttons we've not even pressed in the bank in terms of the fee income, the operating leverage that is yet to play out.

Let me just say, for example, if the loan book for the bank, retail side grew from Rs. 100,000 crore to say Rs. 130,000 crore, Rs. 130,000 crore to Rs. 160,000 crore. We are not going to close the OPEX at 30%. So, there's an operating leverage sitting there. So, there are so many pools of buffer we're sitting on that this is a round of item. It won't be the material thing. For us, we were very clear. We want the deposits, what we want to have. We don't want to outprice in the sense we don't -- we will just need it as much as we need. I mean, we'll touch the price in such a way that we just take what we want to take. But at this point of time, as we speak, there's no plan to touch it.

Sudhanshu Jain: And just to add, even in the asset side, we may sort of increase the pricing rate as markets have also increased pricing on certain products, we have also done so in Q1. So, to some extent, asset repricing will also happen, which will take care of the cost of fund increase.

Sagar Shah: And my, sir, a follow-up question was, have you utilized the Rs. 168 crore provisions that you had in your balance sheet, sir, for COVID-19 in the quarter?

Sudhanshu Jain: Yes, we have utilized about Rs. 75 crore of COVID provision, and this was largely utilized for the corporate case, which I mentioned had slipped into NPA during the current quarter out of the restructuring pool. And so, we have utilized to that extent. We still carry a provision of about Rs. 90 crore as on 30 June, '22.

Vembu Vaidyanathan: And that Rs. 165 crore, largely, we told you there was one retail chain -- in my opening remarks, I mentioned to you the retail chain we had an exposure. So, we drew down on the COVID provision and settled the retail chain, we made it zero net outstanding. And frankly, we don't see a need to use that COVID provision at all. So, some time or the other, we have to release it. As of now, it's just there. I mean we're not expecting next quarter's credit provision to be very much. We don't expect Q3, Q4, any of them to be we feel we'll be quite safe and low. So, at some stage, we'll take it out and release it to the P&L.

Sagar Shah: Then what is the exposure towards that retail exposure, that corporate account?

Vembu Vaidyanathan: Zero now.

Sagar Shah: But what exposure we had before?

Vembu Vaidyanathan: Rs. 575 crore or Rs. 500-odd crore, maybe. I think, may be Rs. 550 crore, Rs. 560 crore, but it is a legacy account. It's not that we could do much about it. So, the last 3 quarters or so, a couple of quarters, we've taken it out and made net zero.

Sagar Shah: And my last question, sir, was regarding to your infrastructure portfolio. That infrastructure portfolio, I think it is still at around Rs. 6,700 crore or so. So, now are you confident of them in the existing portfolio? Or there are certain watch list accounts also in this entire portfolio?

Sudhanshu Jain: No. So, if you see the numbers, out of the book which we have, about 21% is currently a GNPA book, right, where we have a net NPA of 11% This also includes one large toll road account, which had slipped into in Q1 last quarter, while we are getting revenues here in terms of the improved toll. And we expect a resolution which could happen in the balance year. But in terms of incremental stress, we don't see sort of any further stress build up on the infrastructure portfolio.

Moderator: We have the next question from the line of Ashutosh Mishra. Please go ahead.

Ashutosh Mishra: My first question is just to understand from the benchmark of loan on how much of our loan are linked with the EBLR and MCLR and how much is MCLR **2** and how the transmission is going to take place?

Sudhanshu Jain: Yes. Thank you for the question. So, we have a loans and advances book of about Rs. 1,30,000 crore. Correctly, about 37% of the book is linked to external benchmark in the form of EBLR, T-bills and MCLR and the rest is a fixed book. As we mentioned earlier, while we have passed on the repo increase to the new loans, which were sourced after the rate increases by RBI, on the existing book, largely the pricing benefit will come in from this quarter, and the loans which sort of came for reset through the MCLR route, right, because we also increased MCLR during this period, that increase was passed on to the customers. But as far as repo is concerned, largely the benefit will kick in starting Q2.

Ashutosh Mishra: So, how much is repo and how much is MCLR in this 37%?

Sudhanshu Jain: Yes. So, out of the 37%, about 60% is repo and balance is MCLR, where the repricing would happen over 3 months to 1 year, depends on the MCLR, which has been agreed with the client.

Ashutosh Mishra: So, second question is that since rate book composition is relatively higher in our overall loan book, so what is the tenure for this and how the repricing will move on this plan? Because we are in a rising rate environment and to understand them in depth will be very important to know that part.

Sudhanshu Jain: Again, if you see, ours is a very diversified retail book, right? Like we do rural finance loans, right? This is essentially a fixed rate book, right? But there the pricing is quite healthy, the segment is quite profitable, right? And there are certain short aged. These are, again, not very long tenured loans, right? Similarly, we do consumer durables which also runs off quite fast, right? This is also a fixed rate book. So, while we are not able to pass on the rate increase to already originated rate loans, but as I said earlier, we have made some increases in the incremental book which is getting sourced. But we feel still we would be able to sort of hold on to the NIM. So, the NIMs are quite healthy, right, as we mentioned earlier, and we expect it to be around 6% even going forward.

Ashutosh Mishra: Any number on the tenure of this loan book, average tenure of the fixed rate loan book?

Sudhanshu Jain: As I said, it depends on product to product like CD average tenure would be about 8 months or so. For a PL, it would be about 2 years and so. So, it varies from loan to loan, right? So, it would be difficult to spell out a blended tenure in terms of the fixed rate book.

Ashutosh Mishra: My second question is that we are spending aggressively on advertisement across the channel. So, what is our customer acquisition basically on the retail liabilities, if you can put some light on that?

Vembu Vaidyanathan: You see, as you know, last year, we did not grow the liabilities base very much. And you know the reason, we were sitting on too much of LCR and we had to slow down deposit growth. So, from this year onwards, since we are expecting the loan book to grow by 20-odd percent, you know that we need deposits. So, therefore, we might have seen some more activity out there in the marketplace in terms of advertisements, et cetera.

Ashutosh Mishra: Sir, just in that direction only want to know whether we have seen new customer or new account acquisition to go up substantially post this substantial increase in our advertising.

Vembu Vaidyanathan: It's not necessarily, but how many customers we get with Rs. 80,000 or Rs. 1 lakh or RS. 1.2 lakh fees. That's not a material point. The thing to note is actually the quality of customers we get. So, we are very particular about the customer quality we get. We don't have 0 balance products. And so therefore, customers coming in at a minimum brings say, our requirement is Rs. 25,000 or Rs. 10,000, but customers usually bring in maybe even Rs. 80,000, Rs. 1 lakh, Rs. 1.5 lakh in that zone. So, therefore, for us, quality of customers is very, very, very important, and we focus on that because then we can make good use of the infrastructure we're setting up. And then also we get some more meaningful relationships.

Ashutosh Mishra: Sir, another.. I want to know on the high-cost legacy bond book which we are carrying it, what is your guidance on that? How much is the same interest rates value we'll get from repricing of that if you can guide us on that?

Sudhanshu Jain: So, as we have mentioned in the presentation that these loans fall off within next 3 to 4 years, right? On a blended basis, the average residual tenure is about 2 years. And these loans are currently having a blended cost of about 8.75%, right? Of course, as I said, our cost of funds is about 5.2%, right? And so we feel that money is money, right? So, we will be able to sort of replace the bonds, right, as we follow for maturity, right, at a cost, which would be in the range of 5% to 5.5%, right? And so you can compute, right, that much of sort of relief will then flow through the P&L as and when it comes.

Vembu Vaidyanathan: So, you can do the math, supposing, let's say Rs. 22,000 crore. And then you say 8.8 minus, don't even take 5.2%, even if you take it at 6% because like one of the earlier speakers said that we've got a factor for a little bit more increase. And let's factor for it, let's call it, maybe even 5.5% or even 5.7% just liberally speaking. And that difference multiple, so that 3.2 or so and multiply that by Rs. 220 crore, that's about Rs. 630 crore, Rs. 640 crore post that slip, we call it, about Rs. 450 crore, Rs. 500 crore. So, if you add, you get the drift. So, that is the amount of order of magnitude of money in the P&L.

And then we didn't discuss ROE in a detailed way, so surprising nobody asked it, maybe you assume it's improving. But earlier if you recollect, we used to call out 3 items, okay. We used to call out credit card business launch, and we told you that it's losing money per quarter and all that. Second number we used to say was liability branches. And third, this time, we're not even doing that. We're at 1% ROA, we don't need to twist and turn and we don't have to do that. So, you forget these 2 items.

Let's focus on only one item, which is replacing high-cost legacy liabilities because the first 2, you might argue that your business, as an investor, what are you going to do with that. But on this item of cost of funds, this is easy one, easy for you to understand. So, you simply take our ROE today, just add back this maybe Rs. 500-odd crore because of this reason. And then you see the ROE. This will surely go away. I hope there's no dispute on this one.

That's how we are looking at if you see one large brokerage report, which is always bearish on us, they're just not able to believe that we can fix the ROE thing. They just go back to mathematical grade and they believe it should be priced, I don't what they name us. But I think when people get a little under the hood and see not the ROA and ROE, but see the trajectory of where it is headed, and if somebody saw the underlying component that is driving this ROE and if somebody saw the quality of the book that has been built, if somebody saw the quality of customer franchise we're building, and one thing we didn't talk about, about our obsession for customer first, it's showing, reflecting in a product, I'll talk about that later.

So, if someone saw all the quality and character that is being built in the organization, then they will see what we're building. And unfortunately, it will show up only a few years from now, but it will show.

Moderator: That was the last question due to time constraint. I would now hand it over back to the management for closing comments.

Vembu Vaidyanathan: Well, first of all, thanks, you asked very detailed and very incisive conversations. So, we thank you for that on the behalf of Sudhanshu and myself and anybody else from a bank hearing the conversation, thanks for that. I must say that all of us in the bank, our senior management team, many more who are not in this call are all like working hard to build the bank and along the way build the necessary profitability of the bank.

My second thing is that we are building, of course, ROA, ROE, we'll talk. But in a real sense, they're building a really high-quality bank in terms of customer franchise. So, there are many, many things we don't bill customers for because they believe that either they won't bear to see it or if people complain about something or the other, we take it obviously seriously. We go back and fix the route. So, in terms of features that genuinely customer friendly, as a shareholder, you may or even may not be impressed about the bank yet. But I must say that anybody and everybody should be a customer because we genuinely give high-quality products. There are lots of fees and charges, et cetera, left right and right hand. We don't charge any of them. So, we have a good customer bank. Third thing is that if you if you look, say, 1 year or 1 year ahead, let me say, 1 year ahead, my feel is that you won't be disappointed.

Kunal Shah: Thanks to the entire senior management team of IDFC First Bank for patiently answering all the calls. And thanks all the participants for being there. Have a nice weekend. Thank you.

Vembu Vaidyanathan: Yes. Thank you, Kunal. Thank you, everyone. Have a good evening again.

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