THE BT INTERVIEW

"When you're lending, you have to **be very conscious of risk**"

V. Vaidyanathan, MD & CEO of IDFC First Bank, on how the perception about making money has changed in India, Digital India, and more

PHOTOS BY **MILIND SHELTE**

For V. Vaidyanathan, MD & CEO of IDFC First Bank, India is a good place to be. The financial services veteran, who started out as a banker, then turned entrepreneur, and now leads the bank formed as a result of the merger between his NBFC Capital First and IDFC Bank, tells the audience at the BT500 Wealth Creators Summit that like the American Dream, soon there will be an Indian Dream. In a chat with *Business Today*'s *Sourav Majumdar,* he talks about infra financing, MSMEs, and the need for more banks. Edited excerpts:

Q: Tell us about the economy when you were starting off as a banker, and the changes you see as an entrepreneur banker right now?

A: If you go back a little in time, the villains of Indian movies in the '90s,'80s, etc... Pran, Prem Chopra, Danny [Denzongpa]... were all businessmen... Now, nobody portrays businesspeople as [villains]. Now, entrepreneurship is accepted... it is seen as a source of employment creation—at least in the way the government speaks these days... people recognise that they pay taxes and they grow the economy. So, there has been a massive shift of the lens through which we see entrepreneurship in a positive way. It is the biggest thing that has happened in the past few years.

Q: Earlier, people used to frown upon people who used to make money...

A: Profit is not a bad word and... good quality, global scale corporations are getting created, which is a very big thing because India was a bunch of small scale industries [earlier]; no company had a market cap of more than ₹1,000-2,000 crore, maybe 20-30 years ago. Suddenly we have a market cap of ₹5 lakh crore, ₹10 lakh crore. And governance is [now] a big deal... The number of people participating in the process of getting wealth in the form of stock options, etc., has [also] dramatically changed... these things have dramatically changed India—governance, quality of leadership, quality of infrastructure—these things are adding value.

Q: Earlier, infrastructure became a sector that people used to run away from... Today, infrastructure is being created at a rapid pace, and banks and institutions are rushing to fund it. How do you see this playing out?

A: Even our bank was set up to finance infrastructure; it was called IDFC—Infrastructure Development Finance Corporation. It just so happened that in India, there was a window from about late-2000, going up to maybe 2017... when it wouldn't be clear to people that

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once infrastructure was funded, whether they would get land clearance, environment clearance, and things would get stuck. One big difference now is that most project financing happens after getting these clearances. Therefore, projects don't get stuck. The second big difference is that when institutions finance it, many get financed after a project is completed. As a bank, we are not much into infrastructure financing as we burnt our fingers very badly... But as an Indian, I believe infrastructure financing is very important. And I'm beginning to see institutions doing it.

Q: And are we again heading towards the era of development financial institutions, in the form of NaBFID and others? Will banks partner with such institutions in the future?

A: Banks have realised one thing: project financing, where equity risk is taken by the bank, is not their business model; because project financing has certain uncertainties unless all clearances are taken. We (banks) are dealing with public deposits... we cannot put public deposits on the line for a business where repayment is not certain... One big difference [now] is that many projects are [being financed] after, for example, the road is already laid, toll is already coming—there is no problem financing that project because cash is already coming in... Secondly, you find large international players wanting to take a part of the India pie... I've heard of KKR, Cube [Highways]... Because of the narrative we have created about India, ₹100 lakh crore of investment is coming up for infrastructure in the next few years. Because of that, there is positivity about India, governance, completion of projects, and therefore, international money is coming to India, which is a very big change.

Q: Let's come to digital public infrastructure (DPI). How do you see it powering India?

A: We are using this infrastructure extensively... A large part of the bank is built on the new digital infrastructure. So, what does Digital India mean from a lender's point of view? [About] 10-20 years ago, if you had to take a loan, you would go to a bank; the bank manager would appraise you... Then they will take your signature, they'll appraise it [and] the loan will come after maybe eight to 20 days. Now, KYC is

digital; the agreement with the customer is a digital e-agreement; the debit instruction mandate to your bank account, that was post-dated cheques earlier, is now digital. After the loan is booked, monitoring was physical, now it is digital. For collections, earlier, someone would need to come to your place or somebody would call you. Now, you send a link and the customer pays you on a UPI link. So every part of the process is digital.

When you click to the government's point of view, Aadhaar is a massive biometric... DigiLocker is a big part of the Digital India infrastructure; broadband connectivity to 550,000 panchayats of the villages, etc.—BharatNet—that's a big achievement. This whole ecosystem coming together and the government getting involved in making digital infrastructure is a key point. RBI [the Reserve Bank of India] getting involved in innovation is a key point. The government is actively creating all this—this I feel is a very big deal.

Q: The MSME sector is another engine of growth. But MSMEs face a lot of challenges. How does a bank like yours view that?
A: First of all, we all have to recognise that MSMEs have a very hard life. If you're a welder or making jewellery, the sprinkling of the sparks coming at you, it's a difficult working environment. If you're a small trader sitting in a shop and waiting all day for customers, it's a difficult life... [Plus] they also had difficulty getting finance... We haven't been able to solve the physical difficulties, but at least financing has become digital. And I think that's a massive growth. For example, our bank has been heavily focussing on this. We typically finance small entrepreneurs of various sizes, between ₹1 lakh to maybe ₹1-2 crore, and it's a big space for us.

Q: Do you see these problems being overcome as more and more banks get into this space?
A: It is already [being] overcome because you can see the cash flow. You [MSMEs] don't need to give income tax returns and [banks] can give instant financing... our bank, for example, is focussing heavily on three things what are known as RAM: retail, agri and MSMEs. [When] our company started in 2010, the loan book was under ₹100 crore retail; then on the NBFC platform, it grew to about ₹35,000 crore in eight years. Now it has become ₹1.40 lakh crore. So ₹100 crore to ₹1.4 lakh crore in about 13 years. So, we love this business... [and] we will continue to build the book.

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Q: Retail is being seen as one of the key engines for India's growth story, but it also comes with risks. How do you see this?
A: When you're in the lending business, you have to be very, very, very conscious of risk... At our bank, we have a 10-step underwriting process, which includes the go/no-go criteria, scorecards, physical verification if the ticket size is more, cash flow evaluation, identity checks, fraud checks, [etc.]... our experience in this business for 13 years... [has been] our gross NPA has always been 2 per cent and net NPA has always been 1 per cent. Of late, gross NPA has been 1.5 per cent and net NPA has been 0.5 per cent.

Q: What is the secret sauce?
A: It's not a secret sauce ... We have to stay on the cutting edge of technology and respect controls, because in this country getting business is no problem... there is a lot of demand, you don't have to chase credit... We have to, in fact, exercise discipline... and, unfortunately, we reject 40-60 per cent of the loans coming to us.

Q: What's your experience on the agri front?
A: Agri is phenomenal. I find it tragic that when we go to the rural market, we find it completely unfunded even now. The other day I went to a village and met about 70 villagers... most of them were taking money from us to buy a buffalo, goat or cow... The typical ticket size of the loans is ₹2-3 lakh... the [cost] of a cow or buffalo typically [is recovered] in about seven or eight months... And our collection percentage is 99.7 per cent; gross NPA is 1.2 per cent; net NPA is 0.3 per cent... for them (the villagers) to get formal credit from our bank is so much better than taking informal credit... [and] they respect that. The more you can do financing in rural India [the better it is as] you are also changing lives. For example, we are doing water financing, toilet financing... [we've had] fantastic repayments. We finance the hand pump, the pipe that takes the water to the tank, the tank; after the water comes to the customer's home, we finance the water purifier, and then we finance... the toilet. The whole thing could cost about ₹40,000—you're financing loans of ₹40,000-50,000; we have given 328,000 loans, ₹1,200 crore, [with] gross NPA of 1.3 per cent and net NPA of 0.3 per cent. So, when you talk about rural, I think this is really [where] India is changing, and we have given 30 million loans [in total to the rural market].... The big thing that we're seeing is India moving from offline to online. And the good thing is that the government is pushing it.

Q: New NBFCs that have come up from storied business houses. How do you see this competitive environment at a time when the regulatory arbitrage is becoming narrower?
A: As of now, demand is more than what the banking system can supply as credit. At our bank, we want to grow not more than 24-25 per cent; [but] demand is 35-40 per cent. We have to say no even to good business... the regulator is conveying the message from time to time for the system to calm down, and we respect that. So we're slowing down our bank—meaning we want to stay within the radar of what is acceptable credit growth... I feel that it's good for India that more players are coming in... How will India become $5-10 trillion? The same 20 banks cannot make it [happen].

Q: Do you see corporates coming into banking?
A: I can't comment on that... but generally speaking, I feel that India needs more banks, more NBFCs, more foreign capital, because we should not forget that our per capita income is still very low. I'm waiting for the day [the country] becomes a $10-15 trillion [economy]. By 2030 it will be a $7-trillion economy, so who will finance it? The current model is good, but more is better.

Q: The government has cleared a lot of the cobwebs of the past. What are a few things you want to see over the next few years?
A: Reforms. When the government did, for example GST, people thought only GST is great... but the benefit is in terms of how the roads are working and that there are no tolls on the road, etc. So, we should continue to do reforms. GST was one big thing, IBC is a big thing... the good thing is, on the corporate side, India has brought in a lot of controls. I don't believe that what happened in the 2000s, [will happen] at least in the near future... because people are more conscious. Nobody—both state owned and private sector [banks]—wants to dish out money; that culture is not there anymore as of now, [and] I hope it stays this way. On the retail side, again, a lot of guardrails have come [up]... [there are credit] bureaus with 600 million records, cash flow controls have come. So for both retail and wholesale, controls have come, which is a good thing.

[As for] risks, one is retail and wholesale lending risk [of which we are very careful]. But the big risk we should be very careful about is cyber, because it is an unknown unknown... [Plus, there] is operational risk—[for example,]there's a glitch in the system, etc. BT

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