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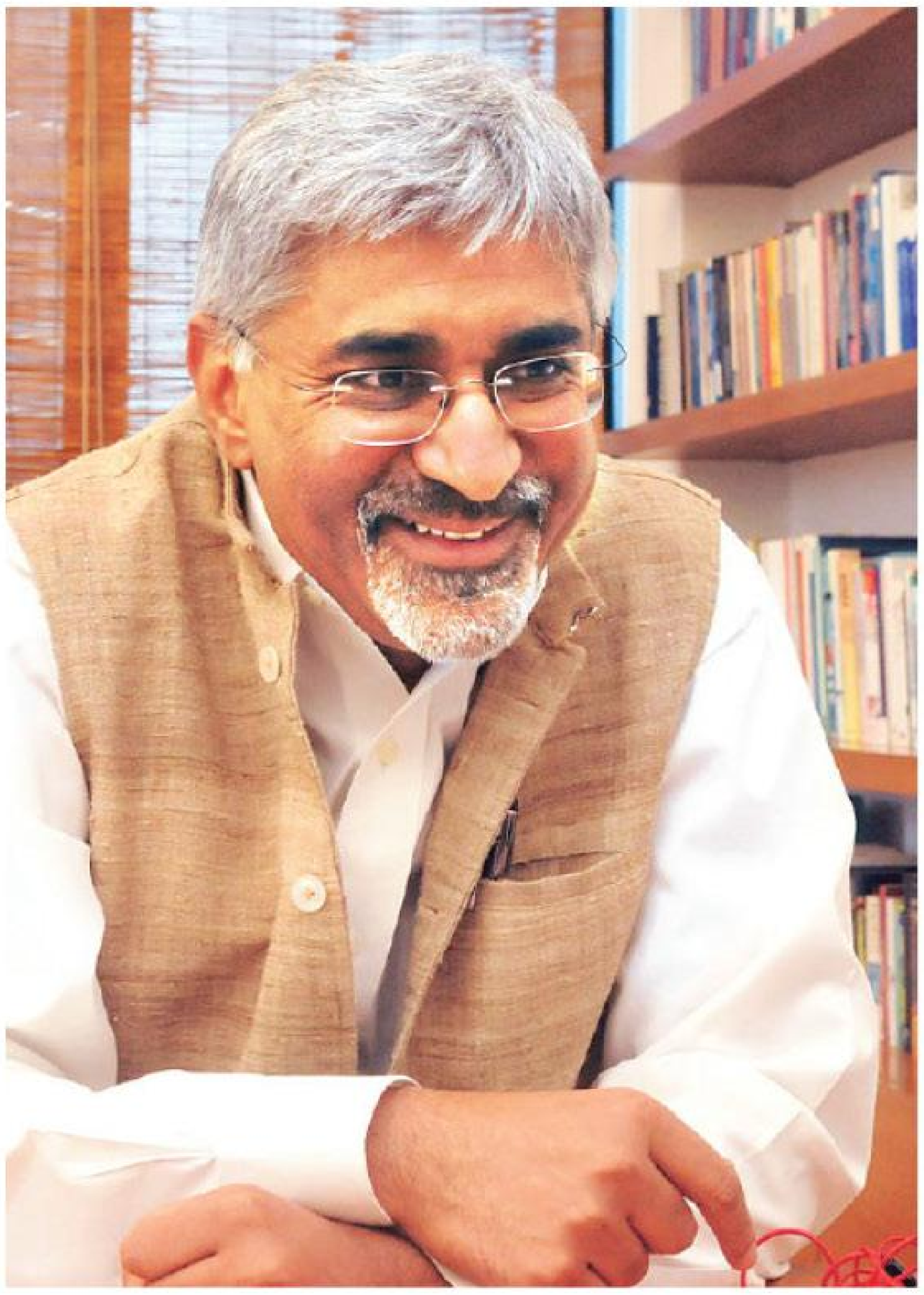
'IDFC Bank will generate significant profit from day one'



IDFC will carry out a soft-launch of its bank in June, before starting full-fledged operations in early October. IDFC Chairman **RAJIV LALL**, who will be the vice-chairman and managing director of IDFC Bank, talks about the roll-out plans and the infrastructure financier's transition to a universal bank. Three quarters of the journey has already been covered, he tells **Manojit Saha** in an exclusive interview. Edited excerpts:

Q&A

RAJIV LALL
Vice-chairman & MD-designate, IDFC Bank

When will you start operations and with how many branches?
We are planning to start operations in the first half of October, with 20 branches. Of those, 15 will come up in three districts of Madhya Pradesh — Hoshangabad, Khandwa, and Harda. These are tier-VI centres (with a population of less than 10,000). The remaining will be in Delhi and Mumbai. But before that, we will launch pilots in the three districts, in June. Several branches will be opened as pilots.

Why Madhya Pradesh?
We did a lot of research. It's a combination of things — competition, infrastructure and agriculture. After applying all these filters, these three districts turned out to be pretty attractive.

We will have a binary strategy —one set of branches will be in metropolitan cities and the other in bottom-of-the-pyramid districts. We have hired a very senior person, Ravi Shankar, to drive our banking activities in Bharat. The strategy is to focus on developing a network of service delivery points, a mobile sales force and a customer relations force, and to develop this franchise district by district.

You acquired a banking licence in April last year. How has the journey been so far?
Hectic! The transformation and transition of IDFC was very complex, for regulatory reasons. It is listed with a large balance sheet and has to be made to conform to the new banking regulations. That means rearranging the structure of IDFC, which is a long-drawn court-assisted process because assets and liabilities have to move from IDFC to IDFC Bank. You can't move assets and liabilities from an entity to another without taking the permission of creditors. That process has to be supervised by a court. We have travelled three quarters of the way but a quarter is still left.

> *"Achieving priority sector lending targets will be very difficult because our starting balance sheet size is ₹70,000 crore. We will face challenges that no other start-up bank ever faced"*

How will the new corporate structure look?
Today, IDFC, an infrastructure finance company and a listed entity, has three finance subsidiaries — IDFC AMC, IDFC Alternatives, and IDFC Securities. Now, we have to create a non-operative financial holding company (NOFHC) under IDFC and these three finance subsidiaries have to be under the NOFHC, a 100 per cent subsidiary of IDFC.

Two more subsidiaries will come and the fifth will be a bank. And, on day one, the bank will be listed. So, IDFC, the parent, and the bank will be listed. The parent will become the holding company and will have two subsidiaries: First, the NOHFC and second, IDFC Foundation.

So, if you are an IDFC shareholder, for every share you own, you will get a share in the bank. IDFC will have 51 per cent stake in the bank and the rest will be held by existing shareholders. FII (foreign institutional investor) holding in the bank will be less than 25 per cent, against the regulatory ceiling of 49 per cent.

You will step down as chairman of IDFC and become the bank's vice-chairman and managing director. Who will be the bank's chairman?
We have decided on who the chairman of the bank will be, and have sought the regulator's approval. We also need a chairman for IDFC, as I will step down.

What will be the broader strategy in the first phase?
The first phase is to exploit and deepen the corporate client relationships we have and diversify the revenue stream from those relationships. That should provide stability to our profit. We will be generating significant profit from day one. For us, the question is how much of our profit we should invest.

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'We cannot start a bank and be lazy about it'

The wholesale bank is very important to enlarging our existing profit base and diversifying it to provide stability to profit growth. The second pillar is to grow the rural business very quickly. We will increase branches in tier-VI centres to much more than the regulatory requirement of 25 per cent. We believe business is going to be very profitable and fairly quick because the amount of investment required is much lower. The return, in terms of return on equity, will be quite decent. But in absolute terms, the contribution of the rural bank to the overall profit will become substantial in many years. In three years, the bulk of our customers will be from rural India.

The retail bank is the third pillar in which we will invest, keeping a longer-term horizon in mind. We will generate profit and diversify revenue from corporate banking and invest in retail banking. That is the first phase. One of our strategic challenges will be not to over-invest in branches.

Why do you say so?
Customer behaviour is changing very fast. We are living in two centuries. The number of people who don't want anything to do with branches is growing rapidly but there are people who want to go to branches. If I look at 10 years from now, there will be many more people who wouldn't want to do anything with a branch. So, I have to pace the investment in branches. I do not want to be caught in a situation in which I spend crores of rupees in building a large branch network but find that in five years, nobody is using it because everybody will use smartphones. Smartphones will revolutionise the banking in this country. We don't fully understand how it will change banking. So, considering that uncertainty, I understand we have to invest heavily in technology. I am happy to over-invest in technology, not in branches.

Given IDFC has no experience in financial inclusion, how are you addressing this?
Bharat-banking is possibly the most interesting part of the bank we are building. The whole idea of Bharat-banking is to take banking services to the community, rather than have people coming to the bank. The philosophy is akin to that of a microfinance institution. Obviously, we will create branches in rural India, but the branch is just a staging host housing a whole bunch of loan officers and customer service managers. These officials will be mobile and will deliver services to the community at their doorsteps, using handheld devices.

How difficult will it be to meet priority sector lending targets, especially in the first year?
It will be very difficult. For us, it will be a large target because our starting balance sheet size is ₹70,000 crore. We will face challenges that no other start-up bank ever faced.

What will be your strategy on the current account and savings account (Casa) deposits front? Will you offer a high savings deposit interest rate?
That is not out first preference. Our view is pricing is just an element attracting people to a bank. Accessibility and service quality are equally important, if not more. It is easy to simply raise the price, but much harder to deliver a service people admire. We strongly feel we cannot start a bank and be lazy about it.

What strategy will you adopt in the wholesale banking segment?
In wholesale banking, the first goal is to change the composition of revenues...to reduce the significance and importance of term lending and supplement that with more income from working capital lending, cash management, transaction banking, foreign exchange services and fee-based services of all kinds.

How much CRR (cash reserve ratio)/SLR (statutory liquidity ratio) exemption benefit will you get when you start banking operations?
All our borrowings that fund long-term infrastructure assets will be eligible for exemption over time. But only 30 per cent of our borrowing will be exempted on day one. For the rest, it will be through the next three to four years.

What will your retail strategy be?
The retail bank will be a phased development. To start with, it will primarily focus on tier-I cities. The aim will be to build a liabilities base with a bulk of savings and current accounts from the retail side. That is a 10-year journey, and the hardest for the bank. Technology will play an important role and the dependence on branches will be significantly lower than for any existing bank. We will start with home loans and focus on affordable housing, which will be eligible for priority sector lending.

The auto and credit card business is not on our mind. The credit card business is an expensive one and requires massive scale.