

'IDFC's Goal is to be a Universal Bank'

IDFC, the infrastructure lender, is poised to wear the hat of a bank soon. The road ahead may be a lot more rough than the one to get the licence from the Reserve Bank of India to convert into a bank.

Rajiv Lall, executive chairman, details his strategy in an interview with ET's **Shilpy Sinha** and **R Sriram**. Edited excerpts.

What are the challenges in transforming IDFC to a bank?

The focus is to make the transition, and there are many aspects to the transformation. For us, there is regulatory complexity. We are a listed non-bank entity. Transition into a bank within the regulatory framework prescribed by the RBI requires a number of legal-type changes. It is a court-supervised process, and should be completed by June. The second is on the technology aspect, and to create framework for the new enterprise. It gives an opportunity to build a bank which is different from traditional bank. The third aspect is building the HR structure. Getting the right people. Strategy and vision for the bank is by far the easiest job.

Are you looking at technology to cut cost?

Technology cannot be a substitute for service. It can facilitate customer service. It can help us cut our cost of operation.

What's your corporate strategy?

We start with our strengths. The goal is to become an universal bank. Our strength has been in the corporate space. We have been a one-trick pony, providing term loans to our customers. We have tried to build greater product offerings by doing private equity, investment banking. But there are so many other products that we cannot provide today – from working capital loans to cash management, trade finance, bank guarantee, LCs. The first leg of our strategy is to use the strengths of our relationships to broaden our product suite and diversify our revenue stream. Second is to broaden our reach beyond infrastructure. The third leg of the corporate strategy is to move into the mid-market and SME space. In terms of customer segment – we will have a large treasury that will be generating revenue. We will be pursuing government business.

Why are you focusing only on tier-1 for consumer banking?

Bulk of our savings, 70%, is in tier-1 India. Unless we attack that market, we won't be able to fund the kind of balance sheet we



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I believe more could be done about the co-ordination among the Reserve Bank of India, ministry of finance and various infrastructure ministries

have. If we were a start-up bank, it could lead to a different strategy. Also in tier-1 India, the likelihood of getting scale in technology-enabled banking is higher.

How will you attract customers who are already with other banks?

All the research that we have done suggests that customers have uncomfortable relationship with their banks. There is an opportunity to raise the bar of services. It is very simple but at the same time very complicated because even if we have service proposition to offer, customers will begin to test us.

Is that how you plan to build your CASA?

Yes, consumer banking will help us build CASA (current account savings account). But corporates also contribute to CA of SA, which one tends to forget. SA will take longer to build. The third leg for the bank will be rural, which we are internally calling Bharat Banking. There the idea is to focus on a range of opportunity from tier 3 to 6. As IDFC Bank starts its journey, we will be attacking both ends of the pyramid. We will be in tier 1 and tier 6.

How many branches will you open in the first year and how do you meet

your priority sector targets?

We are supposed to start on October 1. We will start with not too many branches. Of the 25-30 branches, more than half will be in three districts of Madhya Pradesh.

How are things changing in the infrastructure space?

There will be fundamental changes in the infra space. The Budget very clearly indicated that private sector investment resurgence is going to take some time because balance sheets have been impaired and people are now risk averse. It will be hard to persuade corporates or investors who have lost their money. Banks, particularly public sector ones, that have been the mainstay of infra financing, have become risk averse. As public sector-led infrastructure activities gain momentum, there will be a lot of interest from the private sector.

Are you happy with the way the government has proceeded on the infrastructure front?

They have done a good job. The way they have tackled Coal India's performance, for instance. The auction was innovative. I give them full marks for innovation and handling the coal supply shortage. They have understood that private sector does not have the appetite to step in. They have postponed the deficit compression by one year and taken on the responsibility to demonstrate that they will invest this into infra.

What is your assessment of the government?

The government is neither pro-corporate, certainly not anti-poor, and they are pro-development. If they lose the Bihar elections, it will be very unfortunate because they will be pushed to the populist narrative.

What is your take on the Land Bill? Do you think the government is losing out?

Why are we so much focused on the Land Bill and on those who lose land? What about those people who don't have land. How are we going to create jobs for them? Those jobs have to be created in manufacturing, industry and services. That is the future of development. The entire debate on disenfranchising the poor, because you are taking away their land, is totally political and manipulative. But we are not talking about those who do not have land to start with. The government should be asking that if you constrain our ability to create jobs, you are doing the poor the biggest disservice.