

# US-style law can help banks fix bad debts: Aditya Puri

**Mumbai, March 18:** Indian regulators should introduce a US-style "Chapter 11" bankruptcy law to help recover bad debts and end long-running disputes with borrowers, Aditya Puri, chief executive of HDFC Bank, has said.

Puri told the *Financial Times* that the country's laws provided few options when the businesses of his bank's corporate customers were no longer viable.

India's banking system has grappled with high profile businesses struggling to stay afloat, including Kingfisher Airlines, which has estimated debts of \$2.5 billion, and Suzlon, the renewable energy producer.

A 17-lender consortium, not including HDFC Bank, which is India's largest private sector bank by market capitalisation, has attempted to cajole Kingfisher to start repaying some of its debt with little success, while the airline itself has lurched ever-deeper into crisis.

Puri said: "The banks are dealing with borrowers in a completely rational way given the way our system works.

"If it is going to take me 20 years, I am going to be nice to you, and try to get some of my money back."

America's legal code allows companies unable to service debt to reorganise themselves under bankruptcy protections, for instance by cutting salaries or pensions, while continuing in business.

India's banking system has no similar provision, though it operates a corporate debt restructuring cell (CDR), where banks negoti-

ate with heavily indebted companies, a procedure used by Suzlon this year.

"Do we need something like a Chapter 11 bankruptcy in the way they have in the US, probably we do, and I think it will come. The leniency you see is a consequence of the legal system."

HDFC has been one of India's most successful banks since its foundation in 1994, while its popularity with international investors propelled it to become the world's most expensive bank last year.

The bank's average price-to-book ratio, a measure of investor expectation of future stock value, was 4.9 during 2012, higher than any other large global financial institution.

It has largely avoided the problems of bad debts that have troubled other groups in India's state-dominated banking sector over the past year, against a backdrop of slowing macroeconomic growth.

Puri said his bank was confident that its high stock market valuation would continue, in part as a consequence of its decision to expand its branch network into rural areas. The bank has added 1,000 new branches in three years.

He said of the expansion: "I'd love to say we've been fantastic managers, but in reality financial services demand in India exceeds supply."

Net profits have grown at a compounded annual rate of 33 per cent since 2002, reaching \$344 million in the last quarter.