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Fears of a shift to bond market are overdone

EVEN as it rolls out a slew of digital products HDFC Bank has grown its corporate book smartly at a time when market growth has been subdued. **Paresh Sukthankar**, *Deputy MD, HDFC Bank, tells* **Shobhana Subramanian** *the gain has come from higher exposure to both existing borrowers and the addition of new customers. Sukthankar believes that while companies looking for plain funding may move to the cheaper bond market, banks can retain corporate clients by providing a holistic solution. Excerpts:*

Photo: VASANT PRABHU

Where is corporate loan growth coming from?

We would have added a few new names that weren't there earlier but most of it has come from increasing share with the customers with whom we already have a relationship. We might have weaned away loans as well and, in whatever incremental requirements the customer had, we may have had a larger share. We have also digitalised solutions on the corporate side; for instance, corporate treasurers don't need to come to office to authorise transactions.

Given that a lot of corporates have moved to bond markets, how do you compete? Do you offer lower rates?

We must be doing something right. I guess there must be three or four large banks that are competitive from a base rate perspective. But it's also the speed of response. It's also that when you have the customer's borrowing linked to some sort of transaction processing, it becomes much more compelling. You can always borrow through Commercial Paper; it will always be cheaper than a bank. But the fact that the bank opens a letter of credit or discounts a bill, that matters.

So is HDFC Bank now competing with the bond market?

It's absolutely right when you look at the funding piece, it is. When people talk of disruption it's not from within the system; it's the new fintech kid on the block or whoever else. Again, it's not just the product, it's also a value proposition for the customer because the products don't change so much. Ultimately, he's getting term funding but does he get it at a lower cost and is that the real piece?

So are banks going to compete by adding services?

It could be the bundling of products but it could also be that money is not the only piece that the customer is looking at. For instance if he needs to pay a supplier, whether he borrows or does a bill discounting or he does a transaction linked to the supply chain, there are different ways of servicing him. But I agree that if you look at pure stand-along funding, she is going to go to the markets. Having said that, this whole thing about customers moving to the bond market and banks being substantially sidelined is overdone. At the shorter end you have multiple players. But at the shorter end, if you look at the disintermediation that was happening, other than MFs which had some appetite, the rest of the paper was being picked up by banks. So some corporates will say I will take some cash credit but you must subscribe to my CPs. Corporates also look at a blended cost that they are getting from banks. But, there's no doubt that as the market evolves there will be some cannibalising.

Is banking becoming easier for private sector banks? With the way state-owned banks are being treated, they're going to turn more risk averse...,

I know a lot of people keep asking whether the market share risk will accelerate. One, I don't think private sector banks gaining share has to do with public sector banks being in a spot. The market has grown and this is because the private sector banks offered something superior. My basic point is that our ability to gain share is predicated on our strengths and not on somebody else's weaknesses. Your point is that if the competition is constrained in some manner, will the shift accelerate? I think it is possible for a brief period of time, depending on how long this transition takes place. The real competition is with large public sector banks like State Bank of India which are still very active.

That's not true. Bank of Baroda has not grown its corporate loan book, the book has actually shrunk.

The fact is that the overall system itself has grown at just 8-9% this year, slowing down; maybe some smaller banks have looked to grow in double digits. The point I am making is that when you look at large corporate transactions—PSUs or something—let's assume everyone has appetite, a couple of the large public sector banks and large private sector banks will all be competing tooth and nail for that business. Maybe what you're saying is true that five years back it might have been six public sector banks and two private sector banks. Unfortunately, during this period, total market growth has shrunk. And shifts in market share, when the system is growing at this kind of a pace, are never very rapid.

What about the liabilities side? Will CASA shift?

I would say, in the case of assets and certainly so in the case of CASA, one should avoid generalising across customer segments—public sector, private sector. Even within segments there are players gaining share in CASA and losing share in CASA. If you look at the total private sector, banks have gained market share, even in CASA.

Given that you have the digital edge, will new customers be drawn to private sector banks?

You're right, when it comes to new customers, coming into the banking fold, aspirational, from a convenience perspective, will they get drawn to banks which offer these new services? Absolutely. Since you have a larger number of private sector banks that are strong on technology that shift which is taking place may accelerate. Certainly for some customer profiles. That is a reality. Some public sector banks may get share, like SBI and some others, because they do have the full range. Will there be a slightly faster shift if public sector banks don't respond? I think that is certainly the case.

Therefore, technology and digital is equally a threat and an opportunity depending on where you are. Those banks that are not gearing up and not giving customers a choice, forget not acquiring customers at the same pace, they will lose some of their best customers because customers will move to where there is greater convenience.

For players who are making that transition, relationships are becoming stickier. When people ask, what about the threat from independent wallets, well, they have their strengths but from a limited perspective.

How fast is digital technology changing the way banks work?

The change in the way customers interact with banks has happened over a period of time. In the last year or so, the number of transactions enabled on the mobile has gone up significantly. The part we now call digital is about how the customer is dealing seamlessly across channels. From a bank's point of view, if you look at the lifecycle of a customer, even before you have sold her a product you have a database telling about the customer. It's a different customer experience altogether and that's the power of digital—rather than transacting via an ATM or via net banking on a stand-alone basis, it's across all channels.

Given that IT is accessible to all banks, what will be the differentiator?

It's a question of how each player structures the product around technology; essentially going beyond the basic product, understanding the customer's needs. Also, the larger part of anything that is retail is the sheer execution. For a large number of customers you need to get them to use it. The execution part of technology is sometimes underestimated.

In this digital era what is the role of branches?

It's true that in Europe, branches have been rationalised. But everyone now accepts it's not one or the other, but an Omni channel. Also, it's hard to say what kind of ratio—of branches to customers—we should have. For new customer acquisition, the branch is important not necessarily because you're originating everything there but because the customer will not start a relationship without one. So, if I go to a new city, and don't have a branch but I say the bank has ten ATMs, the customer won't be happy. He would say I need to go somewhere to bang the table, if I need to.

Where is HDFC Bank adding branches?

If you look at the branches, we have added last year and this year it's roughly 50:50 between those in semi-urban and rural areas and branches in urban metropolitan centres. And if about 55% of our branches are semi-urban and rural, it means their disbursements would be 25%. Although the ticket sizes may be smaller and the overall revenue potential smaller — given the market potential—the costs are also lower. So from a profitability point of view, or time to break-even or a cost to income ratio point of view, they would be as good as those in an urban location.