

ADITYA PURI/HDFC BANK

Aspects exceeding bright in next 5-10 years

BY VIVEK LAW

HDFC Bank Ltd seeks out the market and the customers that it would like to access and aggressively pursues it, managing director Aditya Puri, says in an interview. The bank, however, will never enter a business that it does not understand, he said. Edited excerpts:

Are you a risk-averse kind of a person?
 Not absolutely not. I think we do it, as a bit like Apple, what we do is, we work to a clearly defined strategy and that strategy is dependent upon the market that we want to access. Now, while one may say that we are not pioneers, but let's look at it differently, who brought in the centralized processing distributed servicing, anytime anywhere banking or microfinance, who brought that's not the important part, the way I see it.

Because that was easily replicable.
 It was easily replicable, but which is the bank that went in first into the interiors and understood that in a poor country priority sector lending is here for stay. So if you look at our product range and our distribution of branches, it is linked with the ability to provide credit, collections, and operations there.

When you look at two-wheelers, we are the market leaders, if you look at large banks in jewellery, we are the market leaders, and if you look at people lending to small shops, we are the market leaders.
 Now, why is that? Several people of India lives in semi-urban and rural areas. Now, if you look at large banks in India, you cannot ignore that. Superimposed on that 30% of our GDP (gross domestic product) is the manufacturing sector, so you can't be out of the consumer business.

Now, what do we do? We work ahead, even today, if you look at it in terms of market, in terms of having products and distributed into the interior, including we will convert microfinance into sustainable livelihoods and have 10 million families made self-sufficient. It is an innovation.

So we may not do what is called any innovation, where you define your customer base. But innovation within the market that we want to access and the needs of the customers, I think that is innovation.

And you do it. We are not just making you this question because you make the point about the whole priority sector lending bill. I believe not too long ago, you let your cool and you told your senior that you had actually got up and go out and figure out how India differs from the metros and the bigger city is coming up. And that could be the next growth big story?

Not could, it will be. I will not say that's happening because lot of people came with an urban centric mindset. There were people who had come from foreign banks. So, I found we were not in Bihar, we were not in Jammu and Kashmir, we were not in Orissa. So I felt that you want little size and go and find out what is there and I mean it. I had been in Bihar and the north-east and I had a lot of my seniors had been and they said



Straight talk: Puri says the bank works to a clearly defined strategy and that strategy is dependent upon the market that it wants to access.

INTERVIEW

It's a risky area.
Despite you being a Citi banker?

Despite being a Citi banker, but I am an Indian also and a good Punjabi at that and a Fauji kid also. So I had been there and I said go and see, please don't manage from the sixth floor of the bank house. That's where your business is going to come from the future. If you don't participate in the priorities of the country, if you don't replicate its GDP, you are not going to be a large bank; you will not be able to increase your momentum.

Find out what are their needs, what is the business we can do there, will our model of centralized processing distributed servicing work or will it need alteration that you would have to add scanning to it, otherwise you would not have the turnaround time. Learn, don't beat the bank but be there I will. None you figure out how you are going to reconcile your ideas with mine, but take your warm little sit there, spend time, I am telling you what is there, prove me wrong, otherwise you do it.

And you saw a fairly significant increase in your priority sector lending? The numbers are there, I don't want to get into that but that's increased.
 Absolutely, and we will in the next 12 months or so.

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have to become prosperity and bring a convergence between Bharat and India. And we have not lost any money, we are there, we are growing and our experience in Bihar and North-East is fantastic.

This is the opportunity and we have not even touched it?
 We will continue to grow, I am listed on the New York Stock Exchange so I can't agree or disagree with the projections you are making.

But I am not asking you next quarter, I am saying in five years, 10 years?

I am saying that over the five-year, 10-year period, this is the best time for HDFC Bank. I am telling you next time more often than you see Airtel.

So next 5-10 years you continue to see the same kind of scoring growth?

I can't give you the figure, but I would say prospects are exceedingly bright not only because what has happened in the country but what we have done. Now we have changed our operations, we have changed our delivery channels, we have changed our product range, we have put our product sales teams in place.

All of our factories in India, we just have to roll the product through it and we have tested it out and we are working on it. So we have a virtual PC, because that requires low bandwidth. We have got appropriate data warehousing as well as repository because I can turn around between having information and behaviour with us which we can analyse.

Let me put the question a little differently. You have in close to two decades grown in a certain way. Let's keep the numbers out, but if this is the Bharat which you are talking about, then clearly there is a bigger opportunity than what you have achieved till now?

I think so. The bank various words to define the bank which have been used in

Tanal Bandyopadhyay's book A Bank for the Back. One word says you are steady, one says you are aggressive, one says you are necessarily but a very steady approach in his book, Bandyopadhyay has just articulated another dimension. How would you define the bank?

I would say the bank has a very clear culture in itself. We define the market and the customers that we would like to access and for that market we are very aggressive. Does that mean taking unnecessary risk, absolutely not, that means meeting the customer needs. So are we adventurous, yes in meeting customer needs. Are we adventurous on going into businesses that we don't understand, we will absolutely not go into it. So, I would say we are cautiously, capability-based adventurous people, never betting the bank.

It's essential that today you bank the darling of the stock market and I can tell you 20 reports, global reports which I have just been going through. Power of compounding despite weak macro setting, it's the only preferred stock etc. And yet when you go back to the time that you actually went public within two months, you had some time up to a year you could have gone public. Tanal Bandyopadhyay has recounted that despite reports and he quotes even Omrik Parikh saying that we made a mistake, we could have waited a little more, we didn't get the bank's premium that we thought. Do you laugh when you look back? I am sure it worried you a bit at that time because you gave up a very good job and perhaps betting on the stock of the company personally. I am saying from a value point of view. Today, when you look back does that weigh as you the fact that you are one of the most sought after stocks in this country?

No, it doesn't. If your question is would I change anything, I have had a ball. I think most people who worked with HDFC Bank feel they are having a ball because it's open, professional and there is integrity. It's nobody's bank, this is a bank that we have set up. This is a bank of all 60,000 of us, this is an Indian bank run by professional, and we run by other profes-

sionals going forward. So, do I look back and repent? No, I had a ball. I am not laughing, I am thankful to God. Maybe I am laughing at those fellows who were laughing at us when we started but that's only being vicious.

The fact that people have come to expect that this bank can do no wrong. It is that not a weight which worries you? Not really, I have maintained that financial services in India is the best opportunity globally. Demand exceeds supply and if you are in a market where demand exceed supply and you have good execution I don't think then it weighs on me. I would have a problem if I saw that that equation has changed, but if that equation doesn't change I don't see good reason to worry.

Do you think that the next big thing could be making sure that post Aditya Puri the same culture, same execution continues?

Firstly, it's not me who is going to do it, it's the board. It will be the board and the professional's accountability. I have the right to appoint a managing director but it won't be me who is being gracious. They have never exercised their weight. So the defining factor is the decision. I don't know what they are going to do or what exactly is going to happen but I do believe that there is enough talent inside. So I don't want to preempt anything, I will have one input in it.

Do you believe that exercise is already.

No, it's too early. I have got another three and a half years to go. So I think if it starts 3.5 years early, it will be an issue, maybe they want to exceed my tenure after the three and a half years. Or maybe *so din wala me batayao, adhi to mai boloo gaya hoon, ki 'umar ka baadla to khadija kis azool hai' wala mushorah karne jannat hai!* (Getting older is God's law, to not experience it is paradise)

During the process of these 10 years, this bank today is of course the most valued bank in India but it's also cracked into global lists as well. What is your vision for the next three years? Would you like this bank to be, for instance, in the top 50 world or the top 100 in the world. Is there some dream that you have?

No, traditionally the bank has not focused on saying that we got to have the largest market cap in the world, we are a large market share. I would say, in the areas that we will participate we will be the market leader in an Indian bank, so the next three years I don't expect that to change but in the areas that we participate in we have a distinct advantage on some product or they may decide to become major players in those banks. So I think we have a distinct technology, cost, management of risk and having the appropriate incentives to take care of products that we have set up.

Do you see yourself as a global bank?
 I think most global banks have suffered. There people who have said that the model has to change for a global bank because if you have competent local banks then why do you have a restricted licence that it can participate in unless it wants to put in a ball of a lot of money and it wants to set its entry to put in that kind of money and become a large player. But you don't have to be going global to be global. The benchmarks that we have set ourselves in terms of service standards, in terms of technology, in terms of cost to revenue, in terms of security or equity, it will be among the best in the world.

About a decade ago, we saw this whole buzz word about universal banking, this is a bank I must have been the product manufacturer and the distributor or may be at a group level. If I may say so, a lot of people did that, you did too, so you must have your own insurance, your own mutual fund, your own investment banking arm, securities arm, etc. I think that had its own case. Then we saw the whole retail boom and you were perhaps the only one which came out fairly unscathed out of that. What is according to you the next big thing? You have already talked about the whole rural story which in itself is huge as you mentioned. What according to you is the next big thing as far as the bank is concerned? First of all do you believe that that whole thing of this whole universal banking concept really worked?

It wasn't so much the universal banking that failed. What really failed was the associated with it including the regulators. So you had a situation where you went into products that you didn't understand the risk, you didn't understand who was managing the risk.

So, if you take the old paradigm, where the central bank was taking the risk, most of the people participating in finance were within the ambit of the central bank, and now you are out now the market can manage the risk better and we introduced models. So, neither was the market able to manage the risk nor the model worked because the models work on other thing being equal and so now when you have a model that were not suitable and also they miscalculated leverage and substantially increased the leverage of the banking system.

As you see, what is happening globally, people are bringing down leverage, they are also saying don't take proprietary risk, understand the business that you are in, be liquid because that's what it is and define your customer base. Going forward, the success will be people who have the brand but don't necessarily care a premium from the brand because they have a lower cost of servicing, they have excellent service, they understand their products that they are in, they are able to manage the provisioning and delinquency based on the right margins and they are market leaders in the area that they participate in, irrespective of where it is.

So, there is no place for somebody to be at the bottom of the pyramid and say, 'I am a global bank.' So you would see a lot more strong local banks, you would see some of these banks going into some countries where they have a distinct advantage on some product or they may decide to become major players in those banks. So I think we have a distinct technology, cost, management of risk and having the appropriate incentives to take care of products that we have set up.

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 Catch market guru Sanjay Dutt, Director, Quantum Securities, in conversation with Vivek Law at 9:30am on Thursday