

News monitored for: HDFC Bank

ADITYA PURI/HDFC BANK

# I definitely don't think 5% economic growth is the new normal for India

BY VIVEK LAW

The economy is likely to return to a growth rate of 7-7.5% after 12-18 months, said Aditya Puri, managing director of HDFC Bank Ltd. The rupee should also trade closer to the 60 range against the dollar, Puri said in an interview. Edited excerpts:

**Do you believe the worst is over?**  
I definitely don't think 5% is the new normal. I would say somewhere between 7-7.5%. It could take 12-18 months to reach that but we tend to go into a depression very fast. So if you look two months back, I don't think even you would have been smiling. Not even two months, two weeks ago... *O mar gaye* (we are dead)! Today it's a little more optimistic. Let's hope we get few more things right.

**Is it the Raghuram Rajan effect?**  
What impressed me, more than what he did, was about the fact that he came in with a lot of confidence. He spoke on his first day. He had a clear agenda and that seems to have gone down really well.

**I know you are a person who looks more at the intent behind what a person is trying to do. Was that the sense you got and is that what has changed the mood?**  
Much as I would like to credit Raghuram Rajan with everything, I think he is only a part of it.

**Sure, I am only asking you about that specific thing.**  
I will give my interpretation of it and I think lot of people realised this. Just based on hearing—I was in London when he gave his first speech but in his first speech he clearly set out an agenda for his entire tenure.

Also he has addressed two very important parts. One, the rupee is mispriced; the forwards were too high. So obviously the message he is giving to the world is that 'the money can come in and I am willing to give a forward at what I think is the right rate. You fellows have gone a bit nutty in terms of market sentiment deciding the forwards'. So, he has put a cap on the forwards. He has put 30 November when you can at least expect \$15 billion if not \$20 billion to come in. When this comes in, he has also sorted out the liquidity aspect which is necessary for a growing economy without getting too much pressure on the policy rates.

**Would you like to tell him to ease that whole liquidity squeeze that happened? How badly did it hurt the system?**

If you are asking me about 15 July (when RBI announced steps to curb exchange rate volatility), rather than hurt the system I'd like to put it in balance with the purpose. The purpose was to control the rupee on 5 July (when RBI announced steps to curb exchange rate volatility), rather than hurt the system I'd like to put it in balance and balance it with the purpose.

**It didn't happen because the... rupee required concerted fiscal and monetary action. So doing it on its own, what it resulted in) was to (push) up the interest rates and upset the yields. Then it was not clear whether you wanted the entire yield curve to move up or you**



Economic sentiment: Puri says he believes rural India is not as pessimistic as urban India.

## INTERVIEW

wanted an inverted yield curve. I think a little more liquidity in the system would be good. A part of it will just come if we bring money in.

**How tight is liquidity right now?**  
Liquidity is tight. I think it hurt the system in terms of the sentiment and shock. But it is not something that cannot be retrieved. It is reasonably easy to retrieve it.

**Are you hopeful he will do that?**  
If we just bring the money in, if we bring the \$15 billion in, swap it and it comes to rupees, there is more than enough liquidity for everybody.

**You believe in the whole FCNR (foreign currency non-resident) swap will yield \$15-20 billion?**

Yes, easily.

**You don't agree with the various comments that India could risk rupee downgrade?**

I don't think so. I am not passing a judgment on anybody but I would have very much liked if the commentary was backed with reasoning. Now let's look at India as a sovereign nation. Downgrade can only come if there is a problem in repaying our debts.

If you look at India today, the total debt-to-GDP is 66%. A large proportion of that is domestic. Foreign debt-to-GDP is only 22%. Large proportion of that is private debt. Short-term debt—overrated completely—is 5.2% of GDP, out of which a large amount is NRI (non-resident Indian) and today I can get you a letter of credit that's 50 basis points or below—if you are a strong company, you can get below that—which is better than our investment rating and there is more than enough money available. Our reserves are at \$279 billion. So where is the question of a default? Where is the question of a downgrade? That is why Moody's has done it. Yes, if we don't solve the problems and that's what they have highlighted, then you solve your

problems; there is no issue. To say just now 'we will be downgraded and there is an issue of default,' then I think it is a bit far-fetched.

**Do you believe that the worst is over for the rupee?**

I believe so but when a currency is being traded on sentiment rather than fundamentals, it's a very risky proposal to say that. Let me go back to why I believe that and then if things change then obviously my prognosis changes. If you take the current account deficit as of today, all of you are pleasantly surprised with the drop. I do believe that the gold imports will remain down.

There has been a fundamental change in the structure for gold imports. Banks can no longer import on consignment. The jewellers cannot import. They will have to, one, have the funding and two, take a position on gold. So, the gold imports will remain down.

Exports have gone up. If the Indian economy continues to perform, exports will continue to be up. That's on the trade side. Before November 30th, we will get between \$15-20 billion—so anybody going short better think very hard again—and we will be below \$70 billion. More action is yet to be taken. Let me not suggest that everything is hunky-dory. More action needs to be taken, but let's not discount whatever action that has been taken... If that is the case and if it's below that and it's going to be below, sub-10 billion a month and there is inflows coming in and the oil demand has been taken off the market, I think it's a reasonable presumption that we should be in this range and over time it should come closer to the 60

**I want to go back to our last interview which was about 10 months ago and you told me how you told your senior management to get off your chairs and to go to rural India and that's where the opportunity lies. That seems to have worked rather well because most of the reports I see on your bank single that out as being one of your successes; has that worked?**

It has worked beautifully in multiple ways. It has worked for the bank. It has worked for our positioning in the society and being a good citizen and it has worked for our customers. What we said is, arguably 60-70% of India lives in semi-urban and rural India. That is an area, if we have to get Bharat

and India to converge, we'll see a lot more affluence. When you go into those areas, you actually find that most of the people there are on the liability side of the bank balance sheet i.e. collecting deposits. There were very few people actually lending on that side; the reason being because the ticket size has become smaller and the geography gets dispersed. What we have been working for the last four years—and this will really stand us in good step going forward—is we not only took our products to the interior, we took our branches into the interior. But more important, the people have to understand that when you take your branches and the products into the interior, where you are going to have disbursed customer basis and you are going to be in the interior, there is a change in your model in terms of your telecom, operations, credit, customer dealing, distribution and sales. All of that we have done and today we have approximately 56% of our

distribution in semi-urban and rural India, but only about 16-18% of our earnings come from there. I have told you in five years it will balance off, that our distributions and earnings will reflect the same. We will exceed that. More importantly, we have been able to go in there and deal with everybody right from the bottom of the pyramid. As of today, for productive micro-finance, which we call our livelihood initiative, we are the largest in the country. We helped two million families to become self-reliant. If you go into the interior and if you drive from Delhi to Amritsar, you will see our signs more often than you see Airtel signs. So we have established a fantastic brand.

**Do you believe rural India is not as pessimistic as urban India?**

Absolutely.

**What is the sense (since you must be travelling a lot to these areas) — are things much better there because we seem to be obviously affected by currency, markets and etc. But is rural India thriving?**

Rural India is thriving. Not only is it thriving, now the monsoon has made a major difference to them. They are delighted. You talk to your driver, you talk to your *maalish wala*, he will tell you, *Saab acha baarish aya, acha kheti niklega* (there's been a good monsoon and there will be a good harvest). They have got money. Their realisations have gone up. What has happened is that if you get the right infrastructure in there, wherever a road and power has reached, there is a lot of affluence and we are helping in there. For instance, people are taking motorcycles as a business loan because he can carry his milk to where he can sell it. He can take vegetable to a place where he can sell it. We have got ladies who want to get together, become viable and have women's empowerment whereby they form a self-help group and they don't allow their husbands to beat them up. There the business is growing fast but

you have to see that there is a lot of catching up for those guys to do.

So from what I hear you say is that you will continue to be the 31%-man for many years given the opportunity? (HDFC bank posted 30.6% net profit in the quarter ended June 2012 over the year-ago period).

I don't know from where you heard that from. I don't care what the investors call me or they don't call me.

Let me tell you where I see it. We have never given guidance.

**I know that. You have only delivered for many years.**

What we say is the following. We say, we straddle the Indian GDP and by the way, we one of the few fellows who straddle it proportionately because 50% of it is retail and 50% is corporate. Consumption in our GDP is 56%.

We are one of the few banks that straddle it.

If the country grows, we will grow. Normally, you have credit growing at a multiplier of about three to real GDP. We have also gained the market share ranging between 4-6%. If you want to project us to infinity at this point of time, then please take GDP multiplied by three and add 5-6% and then if it comes to 30% then it is 30%, if it comes to 20% then it is 20%, if it comes to 25% then it is 25% and what the investors say is their issue, not mine.

**Which is why I said that therefore, what I hear you saying is that there is enormous opportunity?**

I think there are enormous opportunities. I am just saying that I don't know what this 30-31% is. Let me clarify because a lot of fellows out there say this. So let me say this and ask you a few questions to make it very clear.

**No, I am supposed to ask you questions. Ok, go ahead.**

If a bank knows it's going to be growing and when it is doing exceedingly well and making a lot of money, would it make sense for them to invest a lot? Would it make sense for them to build a brand? Would it make sense for them to make counter cyclical provisions? If you see what we have done in the last three years, we have opened 1,200-1,300 branches. We have got counter cyclical provisions coming up to about 0.7% or there about. We have built our rural brand. Could our earnings during those years have been higher than whatever number you are talking about? Yes, would it have been prudent? No! Because what we have done is that we have put that in and that will come in good stead and it will take 2-3 years to come back to our 7%. That's why the figure approximate to where it is because whenever we get the chance we invest like hell.

**And you are investing right now.**

Absolutely! We will grow—for some time at least. Because I am only talking from the point of view that let's take the IT sector, telecom sector... they all grew 100 percent.

Way past my retirement we will continue to be growing. When I'll be having a sip of wine in my yacht, I will watch the bank grow.

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