

Puri chases growth for HDFC Bank in villages

Mumbai, Feb 6: HDFC Bank, second-largest by market value, is seeking to expand in the rural market of the country to bolster profits as competition in its cities intensifies.

Lending in India's villages and small towns, where almost half of HDFC Bank's branches are located, expanded as much as 40 percent in the past two years, compared with an average 25 percent increase in total loans, according to Chief Executive Officer Aditya Puri. That growth rate will change the bank's retail lending portfolio over the next five years, he said, declining to give a target for rural loans.

Puri is betting his bank will be able to sidestep the problem of rising bad loans in rural India and boost profit from selling products to a population that exceeds the US and Eu-

rope combined, after setting up procedures such as central vetting of credit. Fewer rivals offering banking services in the nation's 600,000 villages may help HDFC Bank boost margins, the former Citigroup executive said. "Around 70% of India lives there and that's the future," Puri said in his office in Mumbai. "The semi-urban and rural areas are almost virgin markets."

Puri, who has set up rural branches from Kargil, bordering Pakistan, to the Andaman & Nicobar islands, near Indonesia's Aceh province, forecasts the bank's expansion in the past four years will help in boosting revenue to cut cost-to-income ratio, a measure of profitability, by a quarter percentage point every year through 2018.

"An improvement in the cost-to-income ratio and



File photo of HDFC Bank employees at a Mumbai branch BLOOMBERG

steady loan growth above 25% will be the valuation driver for the bank," said Nitin Kumar, a Mumbai-based banking analyst at Quant Broking.

HDFC Bank's total outstanding loans increased 24% in 2012 from a year ago. India's total bank loans, excluding advances to state agencies for

food procurement, expanded 15% last year, data compiled by RBI show.

Cost-to-income ratio, excluding income from bond investments, at Mumbai-based HDFC Bank was 47.1% for the three months ended December 31, up from 46.7% a year earlier, Paresh Sukthankar,



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Aditya Puri,
CEO, HDFC Bank

the bank's executive director, said on February 4.

HDFC Bank, which increased its rural loans to 15% of retail lending at the end of

December from 9% in March 2011, is pricing "pockets" of increased defaults into loans in some areas, Puri, 62, said. Overall, delinquencies on rural loans are not higher than in urban markets, he said.

State Bank of India is the country's largest rural lender, according to company exchange filings. HDFC Bank has 45% of its branches outside cities, according to a presentation on its website.

"The bank has seen an increase in price competition in retail in cities" in the last quarter, said Sukthankar. "Price-based competition in rural areas is lesser."

Still, bad loans from lending to farmers may increase 5.8% by March, the highest among seven industries, according to a Reserve Bank of India report dated December 28. *Bloomberg*