'We will continue to grow above industry average'

Paresh Sukthankar, Executive Director, HDFC Bank, shared with **Radhika Merwin** *his views on the bank's prospects in the current challenging environment.*

Excerpts from the interview:

What policy action do you expect from the RBI now?

Given the liquidity tightening measures introduced by the RBI, I do not expect any further policy action right now. As long as there is an overbearing focus on curbing currency volatility, it will not be meaningful to predict the direction of the monetary policy.

The repo rate cuts have not yet been passed on to borrowers in the form of lower lending rates. As long as banks continue to borrow sizeable amounts in the overnight window under the liquidity adjustment facility (LAF), they will not be comfortable to lower deposit rates.

The question really is whether there is comfortable liquidity with banks to lower deposit rates. As deposit mobilisation is already low, banks are reluctant to lower the deposit rates.

On the other hand, loan growth remains subdued and hence, while deposit growth is not constraining growth, it is preventing a meaningful cut in deposit as well as lending rates.

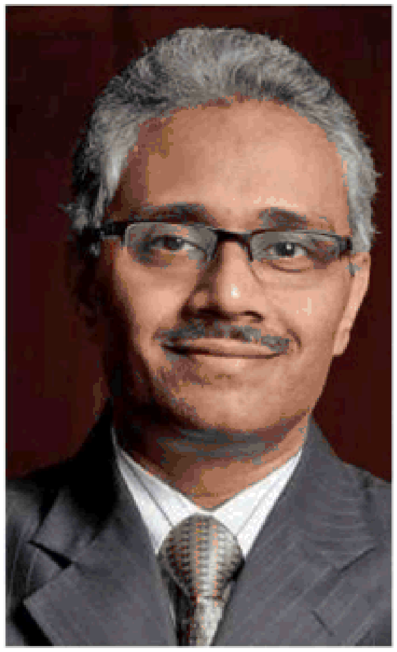
So, are we still in a declining interest rate scenario?

Given the steep fall in the rupee, it was difficult to expect any sizeable policy action from the central bank.

However, until a week back, my expectation was some easing of liquidity and lower rates over the next couple of quarters. Now, until the exchange rate stabilises and these latest measures are reversed or eased, liquidity is at a premium and there is a clear short-term bias towards higher rates.

Is HDFC Bank looking to lower its base rate further?

At 9.6 per cent, we already have one of the lowest base rates in the industry. In the current liquidity and rate environment, any further reduction would not be logical.



Our diversified loan book will help overcome weakness in any particular segment.

PARESH SUKTHANKAR, EXECUTIVE DIRECTOR, HDFC BANK

What is your outlook for 2013-14 in terms of loan growth?

HDFC Bank has been able to grow above the industry and we are confident of delivering on similar lines.

The overall banking system is a function of the growth in the gross domestic product (GDP). The loan growth has been 2.5-3 times the real GDP growth in the past. And HDFC Bank has grown around 5 per cent higher than the industry average.

We expect GDP growthto range between 5.5 per cent and 5.7 per cent in 2013-14. The overall credit growth in the banking system can move up to around 17 per cent. Again, we will grow a couple of percentage points above the industry. The overall growth in the economy will depend on drivers, such as revival in the investment cycle.

The public sector may see some recovery in investments, prodded by the government to do so. Private sector investments, on the other hand, will be limited to brownfield expansion.

So, there is some hope on revival of investments; however, this may be offset by lower consumption spending which has started to taper off. Thus, we need to watch out for levers that can revive the growth in the economy.

Which segments will drive your loan growth?

There is no one particular segment that will drive growth. Our loan book is well diversified, split equally between retail and wholesale. Within wholesale loans, our portfolio is well spread between different industries and businesses.

Also, a larger portion of our lending is related to short and medium tenure working capital and trade financing. So, as consumption spending has been relatively less affected, these segments have still grown. Also, our dependence on long-term capex lending and project finance is lower.

Within retail, we have a host of products — from auto loans to business banking. This helps to grow in one segment even as certain others many remain sluggish.

Currently, as the underlying sale volumes in the auto segment are weak, lending to this segment has been lower. On the other hand, home loans, business banking and credit cards still continue to grow faster.

This may change over the course of the year. But as our loan book is well-diversified across segments, we will continue to find opportunities to grow in some pockets.