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Our consistency **levels are unmatched**

The pandemic has made HDFC Bank adopt a more digital-driven, science-based approach to lending, **Srinivasan Vaidyanathan**, CFO and group head - finance, tells **Shritama Bose**, adding that sound execution should keep the company ahead of the competition. Excerpts:

Has the pandemic in any way changed your perception of who your customer is?

I wouldn't say that anything has changed in the way we perceive our customer. But, due to accelerated digital thinking, we are getting more customers and the turnaround time to consummate the relationship has got reduced. We want to capture the customer for simply a transaction, which is what digitisation is doing, and translate that into a relationship. We are trying to make this process analytics-based. Through analytics, the relationship manager knows what conversations to have, about the inclination of the customer from a product and relationship point of view, allowing him to make the right need-based sales pitch. So, we are also using science to drive the business rather than just art, if you will. This is something Covid has taught us, having a more science- and digital-based approach. It helps that the customer market has grown much larger now. Policies like video KYC are also aiding our efforts. But we are still adding branches because that's important to some customers.

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HDFC Bank has been a market favourite for its consistency, but others are catching up. Do you feel investors want something more from you now?

We are known for consistency of performance and best-in-class execution across parameters. Between 2017 and 2021, our advances have grown by 2.3x, between 2016 and 2020—that is before Covid— it was 2.3-2.4x and between 2011 and 2016, the figure was 2.5x. The others are nowhere close to that kind of consistency. If you look at market share over a 21-month period during the pandemic, our share of incremental growth was 25% even though our loan market share is 10-11% and deposit market share is 9-10%. When investors look at execution, they also look at things like deposits per branch. On that count, some of our competitors are at 70-80% of our levels. Even on income per employee they would be at 60-70% of our levels. Similarly, there's the return on assets (RoA) which investors closely look at. We have had a consistent 2% RoA over a period of time, a figure our competitors are getting to now. For many banks, investors have seen the return on equity going below the cost of capital and only of late have things changed. Our P/B ratio was 3.5x five years ago and in December too, it was 3.5x. Except for in March 2020 when there were liquidity issues and it went below 3x, the P/B ratio has remained at around that level. This shows that while the multiple you pay for the bank is constant, its growth in the high teens gets you a compounding return.

The share of revolving customers in the credit card market is falling. How do you deal with that?

A rational customer will typically gravitate towards secured funding because it is the cheapest, which is where they moved after Covid. The second port of call usually is a lower-cost unsecured product, such as a personal loan. Only then will they turn to card-based borrowing, which costs more. Customer behaviour through the pandemic has been pretty tight. Initially, there were fewer avenues to spend, and after things opened up, there was the second wave, which made us tighten up our approach. In terms of credit policy, we wanted people to be stable before they took more exposure. But things are slowly getting back in shape. Spends grew by 24% in the last quarter, even as card loans grew by only 10%. Customers have more liquidity now and they are spending money. There's another type of customer, the revolving one, who will exhaust all other avenues before turning to higher-cost borrowing. You must bear in mind that we were in a risk-off mode and the cost of borrowing was raised. Also, for about nine months we didn't book any new customers. But we are gathering momentum and this will show in the topline after a lag of a few quarters. We have accelerated customer acquisition, adding 1.3 million customers between August and December last year. It will be a few quarters before they are activated and start revolving.

Have you identified any governance lapses in the case of mis-selling of GPS devices?

The bank has zero tolerance for mis-selling and has fully dealt with individual infractions. We looked closely at the issue and could zero in on the individuals who were not following procedures. It was more a case of a bunch of individuals being at fault rather than a process-related issue.