

'40% of our biz is done outside top 15 cities'

Over the past three years, HDFC Bank, a role model for the banking industry, with steady profitability and low delinquencies, has changed the way it works. The private sector bank has moved out into semi-urban and rural areas, which now bring in 40% of the business. MD and CEO of HDFC Bank Aditya Puri believes that lending even to very small consumers can be profitable initiative, fostering financial inclusion. More importantly, he's convinced the model is scalable. Puri tells Shobhana Subramanian that the economy can regain momentum if the government comes up with a credible growth path for reducing the fiscal deficit.

How do you read the mood in corporate India right now?

I wouldn't say the mood is confident, but I wouldn't say it's pessimistic either. There is a slowdown, yes. And people are concerned about the slow pace of infrastructure development. But the sentiment could also change, though not merely with interest rates coming down. I would like to say that RBI is just the tail. There are several other issues that have hobbled growth.

So what is industry saying?

Why are we not encouraging FDI? Foreign companies want to invest in India, but it's a nightmare for those wanting to bring in money. There are problems in the power sector, which we need to sort out. If Coal India doesn't have the coal, we need to have new mines. I'm surprised that people say that these subsidies are not going to the intended beneficiaries; we need to get the distribution right. We need a combination of a reduction in subsidies and more investment to create supply. Also, while public-private partnerships are a good way to go, we can't have subsidised pricing, where will the private investor get the funding? To have 7% growth for five years, the investment needs to come back. Since demand creation is going to be very large, we need to have investment and jobs for 12 million people who will come into the workforce.

So what do you feel the government should do?

If you take a two-year perspective, while a 9% growth rate may

have been somewhat unrealistic, we shouldn't also get too pessimistic. We'll probably close this year at 7%. So, subsidies need to be contained. They can't be open-ended, especially for oil. Railway fares need to be increased; the government needs to realise that it can't forever be picking up the tab for everything, people need to pay, whether for power or oil. Both the government and the opposition need to realise that there just aren't enough people in the tax net. Let them push for DTC and GST, which will improve tax revenues.

What level of deficit would you be comfortable with?

By now, we should have reached a peak fiscal deficit of 5.8% or 5.8%. And now there should be a clear understanding that this should go down over a period of time; the FRBM had said 3%. What we need is a credible path to 3%, not just numbers. Hopefully the budget will provide

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some direction with regard to reducing the fiscal deficit, the deficit number itself is not important as long as we have the right policies to ensure that it falls over time. So, even if it is 5.2% or 5.3% of GDP or so, it doesn't matter as long as the market doesn't perceive that the target is not going to be met.

Would it be worrying if the borrowings of the government from the bond market cross this year's level of ₹5.2 lakh crore?

I would say so. At this point in time, liquidity is tight partly because RBI wants it to be tight. In any case, RBI has been saying that the normalised CRR should be about 3%, so we have a lot of levers

to address liquidity. If the borrowings are contained to ₹5 lakh crore, this should not crowd out borrowings and, of course, we may need to continue with the open market operations.

What do you make of the delinquencies in the banking system?

You would agree that if there are NPAs in aviation or power, or companies that were highly leveraged or even textiles, they have little to do with the slowdown. And a large portion of the NPAs right now relate to these areas. When it comes to the slowdown, we were growing at 8% and are now growing at 7%, but a 1% slowdown does not create stress for a banking system anywhere. Even SMEs do not get badly hit with



way we do business. Approximately 40% of our business is now done outside the top 15 cities, whereas three years ago, the business was largely concentrated in the large cities, which brought in 80%. As part of our CSR initiative, we have set a goal of viable funding because we believe charity can't really help. So, we go to the bottom of the pyramid, we form a self-help group and we help them create a business opportunity that will allow them to repay the loan and live properly. The average ticket size of the loans is between ₹10,000 and ₹25,000, and it's a profitable business. It becomes even more profitable with scale, because the fixed costs come down. We started this initiative about one and a half years ago and we have already taken in 1.2 million from below the poverty line to above the poverty line. At this rate, we will take this to 10 million families in the next four years, which would be 40 million people.

Which are the areas where you lend?

We have taken on the responsibility of substituting the money-lender in the interiors. For instance, we have taken all our lending products into the hinterland, we are market leaders in two-wheeler loans, as also in jewellery loans, and we lend at between 11.5% and 13.5%. We also lead the CV market and are lending to small shopkeepers, mechanics and we believe this will be a good business. It's not easy to lend in these areas, but we are also growing the branch network. Today we have some 2,300 odd branches, of which 40-45% are in the interiors. We are getting deposits and the delinquencies are lower than we have had in the bigger cities. There is affluence and we should cash in on it. The key point to note is that we can scale up the business because it is not charity, it's profitable.

Deposits are growing at rather subdued sub 15% levels...

That could be because of inflation or because people are putting their money into real estate or gold. Typically, if we have a 17% asset growth for the banking system, deposits need to grow at 13-14% since the base is higher, so the mismatch isn't too bad just now.

a 1% slowdown. Yes, they could be in trouble if growth slips to 6%.

As for the agrisector, it's an area of concern for everybody. We, as banks, are required to allocate 18% of the total loans given to the agriculture sector, but the sector doesn't contribute as much to GDP and there probably isn't even that much demand. On top of this, the repayment culture gets vitiated at times if the government announces a loan waiver, that's a concern. Despite this, the banks have done a good job managing the agricultural loans. And we do want financial inclusion, but ultimately lending has to be viable. In sum, NPAs aren't that unmanageable right now. And if we grow faster, say at 7.5% from 7% now, with a change in sentiment, things will improve.

HDFC Bank has been aggressively lending in the semi-urban and rural areas...

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