MONDAY MUSINGS

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'No Scope for Complacency'

Aditya Puri, the founding chief executive of HDFC Bank, is an eternal optimist. Amid the gloom, he tells **Anita Bhoir** and **MC Govardhana Rangan** that there is light at the end of the tunnel. Economic growth may have faltered, but growth at his bank could be humming. Edited excerpts:

You have just returned from Hong Kong after meeting with investors. What is the mood among them?
Investors this time were in a far better mood than when I met them two months back. They are seeing light at the end of the tunnel for the current account deficit (CAD). If gold import remains subdued, then $70 billion CAD will be met. Some $15 billion to $20 billion will come between FCNR and bank borrowings and this, on the flipside, will provide liquidity. This is a major issue which the investors have understood globally, and the rupee also is not under pressure. We are fortunate the rainfall is good and tapering of QE (quantitative easing) has been delayed. But there is no scope for complacency.

Is the currency's weakness not an issue any more?
At 62 to the US dollar, we become competitive in a number of exports. We must try and ensure they get all facilities like power, ports, etc. These will not happen overnight. But the process has begun while we have suffered the shock and we normally act in a crisis, let us continue with it so that we secure our future. Stalled projects are being approved by the Cabinet Committee on Investment. Now, they want to see actual spending that will improve the capital output ratio. So if we have the stalled projects move, then the investment starts. It may be worthwhile if the people, whose projects have been approved, come out and say when they will start spending and the actual output that will be seen.

Are they not worried about reforms taking a back seat in an election year?
They are sceptical but based on Chidambaram's record, 4.8% to 4.9% (fiscal deficit) could be managed, which they think will be a phenomenal feat. If that 4.8% is achieved, their worry on the election year diminishes. Agriculture will result in better domestic consumption because the winter crop was good. Two good crops in a row lead to better expenditure. The minimum support price is also higher. So let us see the consumption dynamics come through.

Consumption is fine, but the bigger problem has been investments? How does one revive that?
Stalled projects alone are worth around ₹12 lakh crore. When was the last time such investment had come up? Businessmen will come when they see the money. I don't think any new investment will come until elections are done. If these (stalled) projects come through, investors will be happy.

Businessmen blame high interest rate as a deterrent.
I think this interest rate bogie has been raised for too long. If you look at what proportion of sales is interest – for capital-intensive, it is 6-7%; for something that is not capital-intensive it is 2-3%. You think a 25 to 50 basis point can affect decisions? It can provide some buoyancy but it cannot be a factor between making an investment and not making an investment. That said, it would be better if interest rates come down.

Is not the government responsible for the current state of affairs? What should the government be doing?
Let us be honest. This is not a new thing and we can beat up everybody. Fact of the matter is election is due and we are trying to beat inflation. Diesel price hike is necessary but we have to see the feasibility of this. Everything cannot be dumped on the politicians.

Your mantra has been that banking sector growth rate reflects the economic growth rate. And you have this 30% net profit growth expectation. What is the scene now that growth rate has halved?
We give no guidance. Normally the construct for our growth is GDP. Statistically, and traditionally, credit has grown by 3-3.2 times GDP and we have been gaining market share at 4-6% every year. So, you take that and you can project into infinity. Topline and bottomline growth may not be the same as we have invested heavily in 1,200 to 1,400 branches in the last two-and-a-half to three years. These branches are like factories. As we put products, our cost to revenue will go down by approximately by 0.4% to 0.5%. So the bottomline will grow faster than the topline.

You are a major advocate of loans against gold, but the government seems to be going against gold.
I am a fan of monetising gold. It is very important for this country. This is savings going into unproductive sector. I am against giving personal loans to buy gold. RBI is saying we don't want you to give

loans to buy gold for speculative purpose.

Bad loans in the banking system are on the rise. What does this mean?
It is a matter of concern. Is the concern being blown out of proportion? I would say yes. There are two parts to this. Whenever there is a slowing down of the economy, NPAs will go up. You have these restructured loans. These have gone up to 5%.

The genesis of restructuring was such that when the economy was slowing, then the cash flows of companies are under pressure so you have to stretch the mark. Don't put something in restructuring to defer the problem. Everybody was expecting the economy to pick up but instead of picking up it has been going further down. Now if it doesn't pick up even things that were valid for restructuring at 7% may not be valid at 4%. It is not right to firstly blame the bankers.