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Pick-up in banking sector will be gradual: HDFC Bank Deputy MD

Says interest rates may not come down till inflationary concerns recede

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The banking sector has started looking up and credit may grow 2-3 per cent faster this year if economic growth recovers notably from its previous lows, says Paresh Sukthankar, Deputy Managing Director, HDFC Bank, in an interview with *Business Line*. Excerpts.

Has the banking sector bottomed out?

The most logical way to look at the revival in the banking sector is to relate it to economic recovery. Bank credit grows at a certain multiple to GDP growth. We believe that GDP can grow 5.3-5.5 per cent this fiscal and by 6-6.5 per cent in the next fiscal. So, against a 14 per cent loan growth in 2013-14, we could see a 16-17 per cent growth in the current fiscal and 18-19 per cent in the next fiscal.

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The other aspect to consider is asset quality. The cyclical factors that affect asset quality will get sorted out as the economy picks up. And the other factor, namely, project logjams, will ease as the new Government accelerates it efforts to resolve them..

Another important factor is the equity market. If the market continues to do as well as it has and access to capital markets improves, then there will be opportunities for a number of corporates to deleverage. This could again help improve the asset quality of banks.

So, overall we do believe that things are looking up for the sector. But the pick-up will be gradual.

What do you think the new Government needs to do on the policy front to kick-start projects?

There are two parts to this. One relates to the projects that are stuck. Some of these have got the Centre's clearance and are now dealing with state or local issues. These will probably take a couple of months to start moving ahead. The other is to do with completely new investments. Here, the Government agenda of centralised decision-making with closer co-ordination between the Centre and States can incentivise new investments. As far as financing the green-field investments goes, the equity appetite looks a lot more favourable.

On the debt side, while interest rates may not come down in a hurry there is enough debt available for good projects.

What are your expectations on the monetary policy front?

The RBI has indicated that the key parameter to anchor monetary policy has shifted from WPI to CPI and it has also defined acceptable thresholds for CPI for 2015 and 2016. With food inflation still sticky and the fear that the El Nino effect could affect agricultural output, the RBI will be reluctant to cut rates right now. We therefore, don't expect interest rates to come down this fiscal, at least not for the first half and till concerns on inflation recede.

While the current account deficit seems to be under control, thanks to import curbs and strong flows, as the economy picks up, there can be some increase in imports (capex related). Relative to that, exports may not be as buoyant. As the tapering of US bond purchases continues with the possibility of US rates moving higher in the beginning of the next year, the RBI will not want to ignore the currency risk too.

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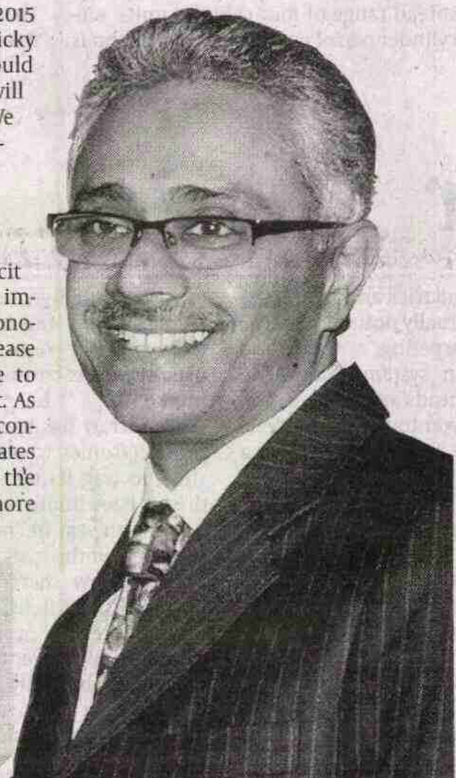
Paresh Sukthankar, Deputy Managing Director, HDFC Bank

Your retail loan book slowed down notably in 2013-14. What is the outlook for the coming year?

The 10 per cent growth in retail loans in 2013-14 is not a comparable figure due to reclassification of loans between wholesale and retail, particularly in the business banking segment. After making these adjustments, retail loans actually grew by about 15 per cent; albeit at a slower pace than wholesale lending.

We will have to see how the underlying sales within the retail segments pick up in the current fiscal. But given the positive sentiment, general expectations are that growth will be slightly better than last year. Growth in the wholesale segment will improve as the economy revives. We believe that we will continue to grow 3-6 per cent above industry.



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