

# Agriculture, Infra Gathering Pace; Timely Disinvestment is Crucial

**H**DFC Bank, the country's most valuable lender, is in the midst of a transformation as its founding CEO Aditya Puri prepares to end his executive stewardship. In an interview with **Saloni Shukla** and **MC Govardhana Rangan**, Puri shares his ideas about his successor, where the bank stands, and what's in store for the economy. Edited excerpts:

## The budget is behind us, and RBI has done its bit on liquidity. What do these mean for the economy?

Everyone recognises that there is a slowdown in the economy, but we see a way out of it. The Union budget provided fiscal numbers that are tenable. They have taken an FRBM leeway which they will make good with aggressive divestment and selling what foreigners call the butterflies – running projects with cash-flow. The government has also focused on agriculture with 14% higher expenditure, it is focusing on improving productivity with better roads, infrastructure, electricity etc. That along with good rabi crop price will see agriculture demand increase by at least 60%.

## But there's a feeling that there were no path-breaking initiatives...

Allowing sovereign wealth funds to invest in infrastructure is a big move as they have been crying to invest in cash generating projects. In addition to this, monetary policy has provided a counter-cyclical push and it has provided greater liquidity push; our total transmission is nearly 95 basis points. The MPC should also look through temporary inflation. Also if you look at IIP, it is sequentially better, but it is not better year-on-year. With a little improved agri demand and change in interest rates, it is very likely that the GDP will come above 5%. I just hope that the government focuses and ensures the divestment happens on time.

## BANKRUPTCY & RESOLUTION

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## How can you be confident of revival where investments are not coming up and capacity utilisation is falling?

I don't think investment pick-up will happen anytime soon. If we need 6% growth, capital investment is not required. The delta beyond 6% is when you need private investment.



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And that will not come until capacity utilisation picks up steam and the demand picks up. People say "bet on the future." Paise sabko pyara hai; koi future par bet nahi karta hai (everyone loves their money and won't bet on the future), until they see concrete returns. But I think unless investments start now they won't be able to hit the demand cycle. I think it will take at least 18-24 months for that to pick up.

## The RBI came up with long-term repo to push lending. What are the chances of it fuelling inflation, as it did in 2012?

I don't think that will be the issue. Today, demand side inflation pressures are not there. Inflation is trending down. RBI has to maintain a 2-6% band. What is more important is that growth has to pick up.

## The bankruptcy law is blamed for part of the slowdown. How crucial is that?

Obviously, there is scope for improvement. Bankruptcy should be the last option. If you can get the company to revive, that should be your first option. The courts are already crowded, we need to look holistically at the alternative methods available for resolution. Once a fellow gets into trouble, getting him out of trouble in this country is a tough job. By the time banks decide on an inter-creditor agreement, it's all over. ICA is not a solution.

## The biggest worry... who after you and what will HDFC Bank be without you?

I think succession is being made way too much; I love it that I am so important, but the reality is that I am not. One man cannot do credit, I can't. We

jointly set the target market, set the credit criteria, set the processes, put a quantitative judgment behind it and there are thousands of transactions which pass through this pre-defined system.

## But you have been the face and there isn't much in public about your second line?

The depth of management is significant. Our head of credit has moved to head TransUnion, our digital head is now the CEO of Ujivvan – that is the level of depth of the second line. The systems and procedures have been worked, the strategy is in place, we have enough senior fellows within who can be the leaders; we will have to choose among them. But the board also felt that we should not miss out on any exceptional external candidate, but he will have to be exceptional because he should have the reputation, stature and experience to be accepted in the organisation.

## The perception outside is that the vision and planning of the bank is only you. Hence they are jittery...

Only vision does not help. Everyone has to believe in the vision and execute it right. Unless people are jointly committed, unless the expertise is brought together, I can't do everything... that is not possible. We decided strategy for technology, for digital, for credit... now to acclaim me for all of this, I am very thankful but the detail that is required, I am not aware of that.

## Is the bank prepared to face the future without you?

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We don't know what the future will be, so we need to be prepared for the future. We realised that if we need to match Amazon or Google, we need to improve our user experience. If I can do a 10-second loan, I am changing the access channel, the customer satisfaction is phenomenal and don't forget the cost savings for the bank.

## BANKING & FUTURE

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## What have you done to harness the potential?

We have created a huge distribution network, especially in the semi-urban and rural areas which are hugely under-served. To keep up the profitability, we need to keep bringing down the costs. We have a huge network in under-served areas which are generating business. Only 25% of the capacity is being utilised and the remaining would help grow in the future. We have created a platform where the customer can pay, save, borrow, shop, invest, insure, trade – all under one umbrella. Almost 40-50% of the merchant transactions happen through the bank. The branch channel is the largest feeder of our business, the liability franchise is through the branches, about 80% of personal loans, credit cards are through that, and 40% of

auto loans are also through the branch channels.

## So, where does the bank presently stand on succession planning?

We have appointed Egon Zehnder. The board gave a set of attributes to them that we would be looking for. We have told them the bank has strong internal candidates, but you can look for exceptional external candidates as well. They will come back to the search committee with their assessment. When they come back, we will create a shortlist, which will be presented to the board. The board will finalise the successor and then apply to the RBI. So, around April-May, we expect to finalise the process.

## There are management theories on succession that say an internal candidate is better than an outsider when the going is smooth unlike institutions that are in chaos, or challenged by internal squabbles...

I believe that this theory has a lot of merit. Obviously, we know whoever is within the organisation, if a lot of them have created a \$100 billion franchise, they must be competent. The board also acknowledges that we have very strong internal candidates. But, there were some people who felt that we should also look at external candidates so that we won't miss out on anyone.

## Do you have a veto on your successor?

I don't have a veto, but I would assume that what I say will have a lot of weight.

## There's speculation about differences between you and Mr. Deepak Parekh over the selection of the successor?

Absolutely not. In all fairness, Deepak and I have no differences. We all want the best person in the organisation. He hasn't even discussed the subject with me. I don't know for how many months. HDFC has a nomination into the search committee. He is a large shareholder; he also wants what is best for the organisation. There is no difference between the board and anybody; we are all looking in the best interest of the bank.

## There are concerns that there's a conflict of interest between the bank and its NBFC subsidiary, HDB Financial...

There is no overlap between the financial services company and HDFC Bank. HDB takes slightly higher credit risk, they charge higher interest rates, they are compensated by a lower cost structure. In the last 13 years, no case has come to me about the two of them fighting.