

NBFC crisis averted, liquidity issues to get resolved: HDFC Bank's Aditya Puri

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It's not a Lehman-like thing, resolution of liquidity issues will take another 12 to 18 months: Aditya Puri

The banking industry has made substantial progress in dealing with its non-performing loan problem, he says

Troubles among India's non-bank financiers will persist for at least a year even if the danger of a full-blown financial crisis has passed, according to the head of the nation's most valuable bank.

Tighter regulatory oversight and asset sales have staved off the worst of the problems afflicting India's [non-bank financial firms](#) following last year's defaults by Infrastructure Leasing & Financial Services Ltd., according to HDFC Bank Ltd.'s Managing Director [Aditya Puri](#). Even so, it will be another 12 to 18 months before the liquidity issues in the wider sector are resolved, Puri added in an interview with *Bloomberg* in Mumbai on Thursday.

"It's not a Lehman-like thing that comes and then there is contagion across the system," Puri said, referring to the US firm that collapsed a decade ago and plunged the global economy into a downturn. "The crisis is over, the problem remains."

Last year's defaults by [IL&FS](#) exposed fault lines among India's shadow lenders, which had grown rapidly to account for a third of all new loans over the previous three years. Though the government's decision to seize the company helped contain the crisis, a lingering credit crunch has led to reduced demand for goods like automobiles and triggered investor concerns about Indian mutual funds that hold debt issued by non-bank finance companies.

Shadow banks are still struggling to raise funds, including from the mutual funds which already hold about \$46 billion of the sector's debt, according to an estimate by Credit Suisse Group AG. Those that can tap the markets are paying about 30 basis points more than other top-rated corporates, according to data compiled by Bloomberg.



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HDFC Bank had an exposure of \$7 billion to non-bank finance companies and related firms as of December, compared with \$11 billion for its nearest private-sector rival ICICI Bank Ltd., filings show. The exposure of the wider Indian banking industry was about \$92 billion in March, according to an estimate from the ratings firm ICRA Ltd. Puri said HDFC Bank has no exposure to IL&FS.

Substantial Progress

Under Puri, HDFC Bank has also skirted India's bad-loan crisis, which hurt many of the country's other lenders. That has helped its shares outperform the broader banking index each year since 2014, boosting its market capitalization to more than double that of State Bank of India, the nation's largest lender by assets.

Though India still has among the world's worst stressed asset ratios, soured credit as a share of total loans is estimated to have shrunk to 10.3% by March from 10.8% in September, according to the central bank.

The banking industry has made "substantial progress" in dealing with its non-performing loan problem, Puri said. He pointed to better recognition of soured debt, closer central bank inspections and more disciplined behavior by borrowers after the implementation of the nation's new bankruptcy law

This gives the government a window to add fresh capital into struggling state-run banks, Puri said. Government-controlled lenders account for about 90% of bad debt and Moody's Investors Service estimates they will probably need some \$3.5 billion to bridge capital needs this financial year,



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on top of the \$28 billion the government has injected over the past two years.

For now though there is an adequate amount of money in the system to fund India's economic growth, Puri said. "When new capital investment comes into the private sector, the demand could possibly be slightly more than what the capability is, by which time I hope they would have infused the capital."

This story has been published from a wire agency feed without modifications to the text. Only the headline has been changed.