'RBI has got a level of comfort due to muted inflation scenario'

PARESH SUKTHANKAR, deputy managing director of HDFC Bank, tells Sheetal Agarwal, Nupur Anand & Abhijit Lele the bank is open to tapping the foreign market to raise capital. Edited excerpts:

Q&A

PARESH SUKTHANKAR
Deputy MD, HDFC Bank

Recently, you received a nod to increase foreign holding in the bank. Also, there is an enabler for further fund-raising. When do you see that coming in? How much equity dilution will that lead to?

We have secured shareholder approval, an enabling resolution, for raising ₹10,000 crore. The approval is valid for a year. Ideally, we would like to raise it this financial year. If not, then within a year. In this regard, we first needed clarity on the foreign shareholding limit. It stood at 49 per cent; the Foreign Investment Promotion Board (FIPB) has approved raising it to 74 per cent. Now, this has to be approved by the Cabinet Committee on Economic Affairs; that is when the approval becomes formally valid. Once that is done, it means we can have 74 per cent shareholding and FIPB has opined HDFC will be a part of it.

As far as the new ₹10,000-crore issuance is concerned, whatever we raise, we have to ensure the foreign shareholding limit is not breached. We had applied to the FIPB for the ₹10,000-crore issuance. For us, it will be a little more than four per cent from a market-cap point of view.

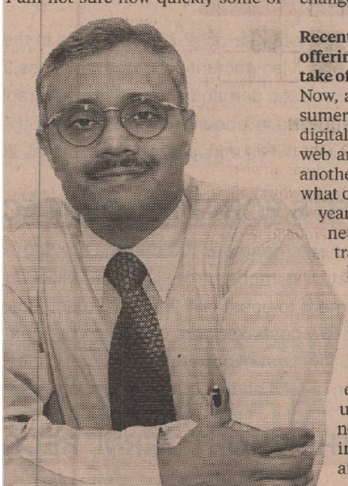
"On the retail side, some rates have come off through special festive season offers. And, the festive season has a tendency to drag on. So, effectively, rates today are a little lower for some deposit tenures and certain lending products"

Now, there is room to raise capital through additional tier-I bonds (AT1), which are Basel-III compliant instruments. What do you think of these?

We will be very happy to raise capital through AT1. But these instruments do not have large acceptability for a large investor base. Given the cost of equity and that of bonds, it will be logical to raise some capital through AT1 bonds. Currently, about 99 per cent of the capital is equity. So, there is room to raise AT1.

Will HDFC Bank raise capital through AT1 before tapping the equity route?

I am not sure how quickly some of the changes (regulatory nod to invest in AT1) will happen. But in the next few years, especially when interest rates come off, banks will love to raise AT1. This is the time to raise capital through long-term instruments at the lower end (of interest rates).



Do you believe interest rates will fall by March?

We have had more muted inflation in recent times and the Reserve Bank of India (RBI) has got a level of comfort. On the retail side, some rates have come off through special festive season offers. And, the festive season has a tendency to drag on. So, effectively, rates today are a little lower for some deposit tenures and certain lending products. It's just that the base rate, which is more visible, has not come off. I think you will see some base rates falling in the March quarter.

HDFC Bank is less active in terms of term loans for projects and infrastructure. RBI has many made changes in norms, such as the structure of 25-year loans and flexibility for loan structuring. Does this provide an opportunity to increase the share of term loans in your asset book?

I agree the bank has been less active in this space (infrastructure and term lending). However, in the past three-four years, we have become active in these segments. Their share has grown from a single digit to about 20 per cent of the wholesale banking book. Yet, it is a small portion of the balance sheet compared to others in the sector. So, it presents an opportunity in that we have more room to grow. The regulatory changes might create opportunities for good, bankable projects. Interest rates are falling. Many healthy companies have a chance to refinance existing loans and for us, too, this is an opportunity.

The economy is showing signs of a pick-up. Will HDFC Bank substantially increase the share of term loans in its book?

The bank is well positioned to benefit from opportunities in the retail and wholesale sides. We will participate in good term lending proposals. But the share of these loans will not change dramatically.

Recently, you launched a new digital offering. How do you expect that to take off?

Now, about 55 per cent of our consumers are interacting through the digital channel, which includes both web and mobile; ATMs account for another 14 per cent. So, this is somewhat of a paradox — in the past four years, we have doubled our branch network, but the percentage of transactions through branches has come down, which is something we are happy about. Branches are important to find new customers and to service a certain section of consumers. Also, it is easier to cross-sell certain products through branches. With the new offering, we hope to see an improvement in the number and breadth of transactions.