ADITYA PURI/HDFC BANK

The only real worry is inflation

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MUMBAI

Growth in the economy could accelerate to near 5.5% this fiscal year if progress is made on unblocking stalled projects, said **Aditya Puri**, managing director of **HDFC Bank Ltd**.

Puri said he doesn't expect interest rates to decline for at least one year as food inflation remains a concern. However, rates in the banking system have already started to come down for retail and corporate borrowers, he said.

On a potential merger between **Housing Development and Finance Corp. Ltd** (HDFC) and HDFC Bank, Puri said that while some issues have been resolved by the recent regulatory changes, not all issues have been, adding a merger will only be considered if it makes business sense. Edited excerpts:

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Rate revision: *Puri says he doesn't expect interest rates to fall for at least a year as food inflation remains a concern, but rates in the banking system have already started to decline for retail and corporate borrowers.*

mint INTERVIEW

Are you seeing any pickup in the economy?

You have to look at it in two ways. No one has a magic wand. Do we expect a miracle in the next one year? No. Do we think the worst is over? Yes. Do we think that growth will pick up to 5.5% this year? I think yes. That is based on the projects that were stuck. Attempts are being made to get them unstuck and a lot of them have started functioning now. Our capital output ratio used to be four units of capital for one unit of output. That had gone up to 6.7. I think they (government) will bring it back to four, which should take the GDP (gross domestic product) growth into the 5.25-5.5% range. The rupee fortunately is stable and the current account deficit is not an issue.

If you look at the fiscal deficit, they have been left with a hole and they are looking at it in two ways—one is via a pickup in the economy and the other is divestment as well settling tax dues and widening the tax net. But I must grant it to them that they have stuck to a 4.1% (of GDP) fiscal deficit target in the budget, even though they could have set a 4.5% target and gotten away with it.

How quickly will investments, particularly private sector investments, pick up?

If the private sector sees the economy growing and if they see business, they will invest. It's like bees to honey. And the Prime Minister has said that he is supportive of the private sector, but within certain constructs. He doesn't want crony capitalism. He wants a focus on manufacturing. If the GDP picks up, I can assure you that investment would come.

When will investment come? It will come if people see that the worst is over. I think the only real worry is inflation—I don't think anyone has a real handle on it. Food inflation—I don't think anyone understands what is causing it or how to control it. Everyone has his theory. But my feeling is that we still haven't come to grips with it.

So if inflation and hence rates stay high for another year or two years, how will the economy respond?

I don't think rates will stay high for that long. If the fiscal deficit comes down to 3.5%, I'm sure the RBI (Reserve Bank of India) governor would be amenable to bringing down rates. Once the structural issues of inflation and fiscal deficit are sorted out, rates will come down.

How quickly will rates come down in your view?

As soon as the government can deliver on the 4.1% fiscal deficit and if we can get some handle on food inflation. Definitely not for a year. But I don't think interest rates not going down for another year is that important. Frankly, if you look at it now, even though policy rates are where they are, interest rates on assets have come down because there is more supply than demand. So there is a downward pressure on rates in the banking system at this point in time. Spreads have come down across the board from consumer to corporate.

Are foreign investors excessively bullish on India?

Foreign investors are smart. They are taking a short-term view and a long-term view, and both are good. In the short term, the euphoria will make you money. In the long term, the hard work will make you money. And the money is coming in.

HDFC Bank has an enabling resolution to raise ₹10,000 crore. Are you going ahead with a QIP (qualified institutional placement) issue soon?

It's an enabling resolution. We will need capital somewhere in the 9-15 month range, but we don't need capital immediately since we are at 16%-plus capital adequacy and 11%-plus on tier I capital. So at some point we will raise capital, depending on the rate at which we grow.

What is the status of the application to FIPB (Foreign Investment Promotion Board) to raise foreign investment limit in the bank?

It's under consideration.

There is renewed talk of a merger between HDFC Bank and HDFC. Is it being considered? A number of analysts have already written on the hypothetical benefits.

There is nothing on the table right now. If it makes sense, we will merge. Does this solve some of the issues? Yes. Does it solve all of the issues? No. If all issues are solved, there is no reason why we can't merge. The analysts who have written about this may require a lot more thinking and understanding.

RBI had introduced a new stressed asset management framework. How is that working? Some banks are complaining about the logistical issues such as the formation of joint lenders' forums that it entails?

I have no problems with it. You have to manage an account in a way that you start working with an account from the time that stress starts to show up, rather than wait for it to become an NPA (non-performing asset). When you see a customer showing stress, it is better that the whole system identifies him as a stress asset and very quickly everybody gets together to either find a solution or limit any further exposure. It's a good thing. There can be some mechanics which are an issue, but as a system it's a good one.

Have we done enough to resolve the existing bad asset problem, though?

The RBI is moving quickly. Either you figure out a scheme whereby you make it viable and if you can't make it viable, then you treat it as NPA or you write it off. In the process of revival, if you see the normal process globally—the first hit is taken by equity and then you see what cut creditors need to take. Then you assess whether with that cut, the asset is viable and can this management run it? Even in the case of asset reconstruction companies (ARCs), norms have been tightened. There was a lacuna that they have to put up only 5% of the amount upfront. That 5% was equal to their fee, so they were putting up nothing. But the new rules that have come in will make it far tougher to just park assets with ARCs. So what the RBI is saying is—don't play games, come to a final solution.