The Economy will Only Look Up From Here On

Q&A

The current talk of gloom and doom is overdone and the Indian economy has slowed only on account of three months of inaction during the general elections, said **Rahul Shukla**, head of corporate banking at HDFC Bank. In an interview to **Saloni Shukla**, he said that growth will pick up in the second half and the September-December period will see a huge pick-up in spends and credit growth will be lead by semi-urban and rural areas. Edited excerpts:

What is your assessment of the slowdown in the Indian economy?

If you look at the latest earnings, the working capital cycles have been stretched and there was inventory build-up, private sector capital expenditure (capex) has been slow other than maintenance capex. We had a three-month cycle in which elections were going on and that leads to a slowdown. The global growth scenario has been poor which has hit exports. These things are not switch-on and switch-off, but the economy will only look up from here. We are pretty much at the bottom of the cycle. We are banking on FDI and government capex. As we go towards September which is our festival cycle, we will see economic activity pick up. Some of our recent data on manufacturing gives more hope.

Your views are in direct contrast with what we are seeing in the Indian equities market. Is that not reflecting the true picture?

If you sit in Mumbai and try to predict the economy, your views are very coloured with what's happening in the equities market and that is not an exact barometer of the activity that is happening on the ground. I travel to a lot of smaller towns in the country and nothing that I have seen makes me believe that I should moderate my growth expectations.

RAHUL SHUKLA
Head-Corporate Banking, HDFC Bank

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The industry on a whole has seen fall in credit and higher delinquency on the SME book. What is your guidance?

We are not seeing anything out of the the ordinary in our SME book; my book has grown in line with the expectations. But, yes industry as a whole has seen tepid SME credit growth. We only look at those SME clients that are bankable — cash-flows are with me and is backed by adequate collateral. The issue happens when banks extend credit but the promoter's liquidity is somewhere else.

With many non-bank lenders growing slow on credit, does that give you more opportunity?

Credit flow is important for growth and NBFCs catered to some niche segments. If a non-bank lender was lending at 11-12% that is not where I am doing the business. If one NBFC goes out, that doesn't give me any reason to grow. My credit quality will remain the same as I am not looking at that segment for aiding my growth. And due to higher cost of funds, many NBFCs have had to shift lending at 14-15% and that is a totally different market segment.

Newer troubles have emerged in the corporate segment for banks. Why is the industry in a constant clean-up cycle?

We don't have an alarmist view on corporate loans. The corporate segment is in a much better position. The bigger names have been recognised, a few smaller names may come up especially because the boundaries are not watertight between the promoter and company borrowings. What you are seeing is not credit stress, but these names are surfacing due to governance issues. We don't do name lending, you can't do lending where your only recourse to recover money is to sell assets. Lending has to be backed by cash-flows.

What is your reading of the capex cycle?

We have a consumption issue which will pick up as we go along in the second-half. If we have a consumption or a over-capacity issue, would any entrepreneur go out and build more capacity? Obviously not. That is where the government comes in, which is currently doing public sector capex. This will drag demand along with it.

As we go into the second half, due to the BS-VI cut-off a lot of automobiles will get sold ahead of the date because that sector is cyclically down at this point. The personal consumption will also pick up due to the festive period. Add to that government spending on infrastructure will all together aid private capex.

We are doing the right kind of government spending but the outcome will take time. Ports, waterways, airports... the spending is happening in the right direction which will provide India a longer cycle of growth than a short-term demand fillip.