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Puri: the big picture banker

In 1994 Aditya Puri left Citibank to launch a new institution in a rapidly changing India. As he prepares to retire after 26 years, HDFC Bank stands apart as the strongest and most successful private-sector bank in the country

By: Chris Wright **Illustration:** Angus Cameron

Aditya Puri allows himself a chuckle. Euromoney has just asked the retiring founder and leader of HDFC Bank, one of India's great financial success stories, about an odd contradiction: how he has just articulated a nuanced and progressive view of technology, yet is famous for never using a mobile phone.

"I know how to use a phone when I need to," he says. "I know how to do a Zoom call, like we're doing now. But I speak to you, you don't speak to me, so most of the time when we're talking on the phone it's on my objective. I don't appreciate a call when I've just had my bath, finished my exercise, put on my music and poured my drink of Scotch."

He tells the story for humour, but there's a revealing point here. One of the secrets of Puri's success has been an eye for the big picture, without any need to be lost in the clutter, the insignificant details.

It is possible to harness technology to change your entire bank and the industry in which it operates without being in thrall to an individual gadget.

"A long time back I went to a large technology conference," he says, with two tech leaders who he doesn't name. When asked what he thought, he told them: "You fellows have overestimated yourselves a bit. Technology is an enabler, it can help me do things better, it can help me to access a wider market. But technology cannot change the world."

Technology in itself won't make a great bank is his point; there's still got to be a great bank to make use of the technology. "There has to be an integral raw material."

The raw material of HDFC Bank is one of the best long-term balances of risk and reward ever seen, not only in Indian banking but in all emerging markets.

The success of Puri's 26-year tenure is that while all around him have bounced between scandals and losses, HDFC has never endured a headline-worthy credit bust – not one – nor any scandal.

Yet while exercising such precise prudence, it has routinely logged growth numbers of 20% a year. It has been a combination so potent for investors that, by 2012, HDFC Bank had the highest price-to-book ratio of any bank worldwide.

THE STORY BEGINS IN THE SHIFTING sands of the Indian financial services industry of the early 1990s.

In 1991 India suffered a damaging economic crisis. Years of heavy imports had led to a twin deficit, a near-exhaustion of foreign exchange reserves, depreciation of the currency, sovereign downgrades and a failure to pass a budget.

India made it through the crisis after pledging its gold reserves as collateral for an emergency IMF loan – it had to airlift 47 tonnes of gold to the Bank of England at one stage – but the government fell as a consequence.

Prime minister Narasimha Rao and his finance minister (and future prime minister) Manmohan Singh came in and knew that things had to change, so they began a painful but necessary series of economic reforms. Among them was deregulation of the banking sector and the decision to award licences to a handful of private-sector banks.

At the time all of this was unfolding, Puri was rising through the ranks at Citibank, becoming chief executive of Citibank Malaysia in 1992. Already a 20-year veteran of the bank who had worked in India, Greece, Saudi Arabia, Hong Kong, Korea, Taiwan and China, he had built a reputation as a consummate commercial banker with a keen eye for risk.

DBS chief executive Piyush Gupta, who worked for Puri at Citi, remembers a key piece of advice Puri gave him.

"He told me: 'Never get into a lending relationship you can't control,'" Gupta says. "That stayed with me. If somebody owes me $100, I can control it. If somebody owes me $1 billion, they control it."

At the same time, Housing Development Finance Corporation, India's first specialized mortgage company, was looking at the changing environment with interest.

Founded in 1977 by Hasmukhbhai Parekh, the entrepreneur who would also develop the institution that became ICICI Bank, HDFC by now had a strong brand name as a trusted provider of housing finance.

There were clearly opportunities in what was happening in India.

"When we looked at it dispassionately, the scenario at that time had three components to it," says Puri now.

One was that India was a very underpenetrated financial market, with a lending-to-GDP ratio in the 20s.

"It's not that high even now: 35 to 40," he says. "You need to be in the 70s to really take off and create demand."

The second point was that nobody was quite doing everything properly in Indian banking.

On one side were the public-sector banks, which had scale, distribution and funding capability but not the right product and certainly not the right customer focus.

Foreign banks were present, but they were the reverse: they did have customer focus and product but no meaningful distribution network and no local funding capability.

So the third component was the gap between them that a well assembled team could fill.

"Sitting there, I thought that maybe we could bring those two things together," says Puri. "Given the canvas was so large, we could create a world-class Indian bank, including scale, provided we got the right team together.

"That is the basis on which we figured it was a good idea and to give it a shot."

HDFC Bank was incorporated in 1994, borrowing HDFC's brand name and building on its capital, but doing everything else from scratch. Puri set about assembling a team from everywhere he could think of, provided they had a sense of vision.

"This was a big project, and at that point of time people didn't think it was really possible," he says. "So we needed people with passion, with experience and the capability to make it happen."

So he looked for the best people he could find in technology, customer relations, treasury and HR. SS Thakur was founding chairman, Vinod Yennemadi the first employee.

"We figured if we chose the best and started with a proper brand and proper culture, we had a damn good chance of making it," says Puri.

"I said: 'Look, maybe we are not seeing the wood for the trees… Why the hell would we let someone else eat our breakfast? We know the business. Technology is available to everyone, why don't we disrupt ourselves?'"

Aditya Puri

They started out with an office and a branch at Sandoz House in Mumbai's Worli district, about halfway between the international airport and Nariman Point. Manmohan Singh inaugurated it.

It was tough going at first.

"When we started, most of our colleagues were laughing at us: 'What the hell do these fellows think they can do?' There were all kinds of issues, and I must say sometimes we would get despondent and think: 'Did we do the right thing?'"

It could be a tough sell to get people on board. Puri was aiming high: the absolute best people he could think of, in India and overseas, with the sales pitch of asking them to join what would become the best bank in India – but wasn't yet.

"I would say: 'You've got to take a pay cut. And if you succeed, you'll make good money, but in the meantime you've got to bring down your standard of living and get rid of your Merc and try a Maruti.'"

That was not always a compelling case for a banker.

"But if you make it, you will get personal satisfaction and the share price will go up," Puri told them. "And so we did collect a good team and that's how it started."

Early hires included Paresh Sukthankar, Luis Miranda, CN Ram, Samir Bhatia and A Rajan, all of them instrumental in the bank's early success.

The HDFC brand helped.

"It had some characteristics that we wanted to imbibe very clearly, in terms of customer focus, trust, transparency and integrity," says Puri.

Today, HDFC Bank is known as a retail leader, the best in its field, from deposits to personal lending to cards and payments. But it didn't start out that way.

"He was a quintessential corporate banker," says Gupta, "yet he built HDFC into a dominant retail and small and medium-sized enterprise bank."

ORIGINALLY, SINCE MOST STAFF WERE commercial bankers, the bank started out with treasury. It surveyed the market and decided there was room for a better offering, focusing initially on the top-end corporates, "mainly because they would have a low probability of default. The last thing we wanted was to start the bank and be hit with bad loans," says Puri.

Serving triple-A-rated companies was hardly untrodden territory and the competition was fierce, but HDFC did at least know what it was doing.

Separately, banking was not the only area undergoing a process of great change.

"This was the beginning of the technological revolution," says Puri. "That's when telecommunications exploded."

One practical impact of this was that HDFC didn't need to set up an expensive and cumbersome mainframe but could instead have distributed servicing and sales with centralized processing.

"That fundamentally altered things. You could have anytime, anywhere banking. You could control your credit, control your service standards."

Combining technological freedom with experience of commercial banking, within six or seven months, "we thought we had an excellent cash management product, which was better than the market," says Puri. "We said: 'These guys [the competition] have been having a ball in treasury, we'll just reduce our spreads a little bit and come up with some good ideas.'"

HDFC was ready to hit the market, talking to potential local and international clients. Tata, Birla, Siemens – HDFC's bankers all had relationships with these companies from their previous careers so they went around one by one with their new product. The first to bite was Siemens.

"When we had one in our pocket, we started feeling very comfortable," says Puri.

Shortly afterwards, Reliance came on board, and then Honda, which had a market-leading joint venture with Hero Motors. Some of Honda's existing bankers objected to HDFC Bank's appearance, Puri recalls; Brijmohan Lall Munjal, the Hero/Honda patriarch, told them: "This guy is coming in. Whoever doesn't want him in, he'll take over your facilities."

In other words, anyone who has a problem with HDFC being part of the lending group, will find their part of the facility being given to HDFC.

These early corporate mandates anchored the whole bank. "It started to move forward. People started to talk, we hired, we started to expand."

It was clear to them all, however, that they could be doing more. There was only so much growth they were going to achieve serving only triple-A corporates on their treasury needs.

"We figured we needed to expand our canvas," says Puri.

Looking around the industry, they realized there was a gap in serving retail and in particular the way people were dealing with the stock market.

In those days, retail clients were effectively dealing on trade plus seven settlement.

By teaming up with brokers HDFC moved into that area and then more broadly into retail, making new hires to get customers in. Was it a difficult transition for a corporate banker?

"It was a new area, but I've always been a very customer-focused guy," he says. "So within corporate my only question was: 'What does the customer want and how do we deliver it?' That applied in corporate banking and it applied in spades in retail banking.

"'What does he want that he's not getting? What does it take to make his life more convenient? How can we give him what he wants, when he wants?'"

This all sounds pretty rudimentary today, but in the mid 1990s it was quite revolutionary, despite its simplicity. Growth, in both reputation and numbers, was swift. By 1998 they realized they were on to something.

"We sat down and said: 'Maybe we are really good! Why don't we expand our horizons even further?'

"We said: 'We want to be in the top three banks in the country, and after we've exhausted the country, we'll see where we go.'"

IN THE EVENT, THE COUNTRY WAS plenty exhausting enough.

Fully 26 years on, as he prepares to step down, Puri still believes the main prize is at home not overseas.

"Semi-urban and rural India is where 60% of India lives," he says. "I am of the firm belief that this geography will create a middle class in India that is larger than our current middle class. Because as agriculture becomes important, as they get roads, electricity, water, as they get finance, these fellows are going to create a hell of a lot of demand."

For this reason, Puri has prioritized reaching the underpenetrated bits of his own country over venturing anywhere else.

HDFC Bank has overseas operations serving the Indian diaspora and is ranked

In 2008, HDFC took over Centurion Bank. Pictured here, HDFC chairman Deepak Parekh shakes hands with Shailendra Bhandari, CEO of Centurion, as Aditya Puri looks on a top 60 global brand by Millward Brown, but overseas branches accounted for just 0.85% of the bank's total income for the year to March 31, 2020.

"We are best known in India," he says. "So I have an opportunity in a market I understand, people know me, we've got the distribution and I will get the incremental revenue on margin costs versus a full cost."

Partly for this reason, HDFC Bank has continued to open new branches at exactly the same time as pursuing an ambitious digital agenda. For example, at the time of writing, it is opening more than 100 new branches in the northeast provinces of India, the section that wraps around to the east of Bangladesh. As of June 30, it had 5,326 branches.

Puri continues to believe that the branding presence of a branch matters.

"Even in Britain, if you're in Sussex and the nearest branch of a bank is in London, is that guy going to open an account with you? No."

Puri's point is that even a tiny branch – "my branch in the interior sometimes is two-man, three-man, connected to Delhi through a computer" – can be better than no branch.

"Even if I am a hole in the wall where my sign that says HDFC Bank is bigger than the branch, that's still me. And the cost is peanuts."

Customers can deal with the bank however they like, he says: on their laptop, their mobile or in a branch, as they prefer.

"We have a lot of guys who want to go to a branch, then go to the nearest pub and have their glass of beer," he says. "That's the reality."

Nevertheless, Puri is an avid admirer of how technology can assist his bank.

"The digital revolution prime minister [Narendra] Modi has brought is, I think, not understood across the world," he says.

"The digital revolution is that, now we have broadband available in every village, all government services are available to you digitally. For good banks like us, our main focus is how we deliver digitally, because that allows wider geography, ease of business and reduces our costs as well."

The cost-to-income ratio (or operating cost-to-revenue, as he more precisely expresses it) has fallen from 48% to 38%. His target is 35%, which would be right down

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>
> Aditya Puri, HDFC

with the Singaporean banks.

Some time ago Puri took a trip to Silicon Valley to meet entrepreneurs, because people around him "were telling me 25 years of hard work was going down my backside. That's not what I work for, so let me see what the hell is going on."

He met dozens of people, but noticed that none of them was talking about setting up another bank, but rather, riding on the back of the banking system.

"I said: 'Look, maybe we are not seeing the wood for the trees,'" he recalls. "'Why the hell would we let someone else eat our breakfast? We know the business. Technology is available to everyone, why don't we disrupt ourselves?'"

Not for the first time in the interview, one is struck by the similarities in style, outlook and terminology between him and DBS's Gupta.

"[Puri] was famous (or infamous) for leaving the office at a reasonable hour and never carrying a mobile phone," Gupta says. "His ability to focus on the big things is phenomenal."

Gupta is extremely generous in his praise for Puri and clearly learned a great deal from him, and it is perhaps not a surprise that their banks have evolved along similar lines of seeing it as essential to disrupt themselves in order to stay ahead of a changing environment.

Also like Gupta, he has insisted upon an institution-wide change in mindset. The various elements on the tech and product side – partnership with tech leaders, speed of approval, frictionless service, faster processing and application programming interfaces (APIs) – are all fairly routine in modern banking and Puri thinks that, in that respect, the bank is 80% to 90% there in terms of being a digital bank.

"First was the idea, then the action plan, and then there was the main problem: how do we get everyone to believe in this?"

So how do you?

"I tell you, I debated this for a hell of a long time," he says. "We realized we can come up with the management ideas, but unless we walk the talk and we make it a democratic organization, it won't work."

By democratic, he means: "Where I'm the first among equals. But there's a lot of debate before we finalize and almost anyone, right down to the branch, can say: 'Sir, I disagree with you.'"

That way, by the time the final action plan is ready, "it is a combined document between the management team and the team on the ground who execute it. And, frankly, half the time they've contributed more than I have."

To make it work, Puri had to commit to people, as a personal guarantee, that nobody would lose their job as a consequence of effecting change. They might lose it for failing to meet their competence criteria but not because of making a change.

"Once you've done this two or three times, I think the rank and file believe that what you say is what will happen."

THE UNDENIABLE KEYSTONE OF HDFC Bank's success has been its extraordinary grasp of risk management and its ability to grow at a remarkable pace without ever sacrificing any of that clear-sighted prudence.

"He has an uncanny ability to balance risk and reward," says Gupta. "So, despite 20% growth rates, he never had a major credit bust."

In the year to March 31, 2020, for example, the bank reported a 24.6% year-on-year increase in net profit to Rs262.6 billion ($3.5 billion), achieving 23% growth in the balance sheet to Rs12,445.4 billion and 24.3% growth in deposits to Rs11,475 billion.

It did this with a capital adequacy ratio of 18.5% (the regulatory requirement is 11.075%) and gross non-performing assets (NPAs) of 1.6% of gross advances. The bank held total provisions of 142% of gross NPAs as of March 31.

One might argue these figures don't carry the full impact of Covid-19, but the first-quarter figures, up to June 30, showed continued year-on-year growth in net revenues, net interest income and profit – up 19.6% year on year for the quarter. This was despite a decrease in retail loan origination, sales of third-party products, use of credit and debit cards, efficiency in collection efforts and waivers of fees. NPAs stood at 1.36%.

So what's the secret?

"One, we must understand that the process, whether it's the top process or the corporate governance process or the execution process, must reach every man at every desk in the company, otherwise it's useless," Puri says. "It must be institutionalized and there must be checks and balances."

Very early on, he identified a conflict of interest in "the credit guy reporting to the marketing guy" and so changed the processes and reporting lines.

Again, this speaks to the ethos of embedding a company culture at every level of the bank.

"I see all these things come out on corporate governance, that the chief executive and the board would do," he says. "I hate to puncture their balloon, but [they are] at 20,000 feet. It's the man on the ground who has to understand that this is not what he's supposed to do."

Secondly, the scale of the opportunity at the start helped.

"We were in an underpenetrated market, so to sell our product we didn't have to make funny decisions," he says. "We set our target market: this is the customer we are going to go after; this is the product we are going to give him; this is the interest rate; and this is the probability of default."

In being clear on process, the bank introduced quantitative filters very early on. That led to a tendency to lend only to the strongest names in the market, which are not lucrative, so it therefore became important to be the most efficient name in the business so that there was still a margin. A stable funding profile helped too.

"We didn't want to be dependent upon wholesale funds, because then somebody withdraws and you're running helter skelter because you're funding a long-term asset on a short-term liability."

"He has an uncanny ability to balance risk and reward… So despite 20% growth rates, he never had a major credit bust"

Piyush Gupta, DBS

He summarizes the approach like this: "We were entrepreneurs in terms of thinking, but we were very process-oriented in terms of execution. And to grow, we never compromised, either on the risk metrics or the margin metrics."

More specifically on Covid, Puri argues, "we've got an almost Covid-free balance sheet."

This surely depends on how the pandemic unfolds from here, but here's how the bank approached it: going into the crisis, it had excess deposits, and so when people wanted to sell highly rated assets, it bought them, and when top corporates wanted to shore up their capital, it gave it to them.

It took a lot of provisions – "we want to make sure we don't wait for the moratorium so that the problem becomes back-ended; we are front-ending" – and benefited from the strong fiscal stimulus that India, like many other states, introduced.

Already, motorcycle loans at HDFC Bank are higher than pre-Covid levels, as are tractor loans, with auto loans at about 80% of the pre-pandemic level.

"Obviously some people say it's pent-up demand," he says. "I don't know if it's pent up or not, but I know it's demand."

STILL, IT HASN'T BEEN A COMPLETELY clean slate. The bank has navigated some challenging moments: merging with Times Bank in 2000; taking over Centurion Bank in 2008; the global financial crisis and then demonetization, an event he heard about while on holiday in Nepal. It has also erred occasionally.

At the time of writing, it is under scrutiny for practices in its vehicle financing unit, with the bank alleged to have forced borrowers to buy GPS devices bundled in with their auto loans. Puri announced an internal probe when he spoke at the AGM.

"To think that life is going to be a bed of roses is stupid," he says. "It's going to have ups and downs. There are a few things you can fix and a few things you can't.

"I've been a trader, and if I've got the wrong position there are two things I can do: I can drive myself silly every night or cut the damn position. There's nothing you can do to change it."

When confronted with problems or errors in the bank, he says, the key is to understand why it happened and then to work out how to make sure it doesn't happen again.

"Most important is telling the guy you're behind him. This is not the time to tell him you're going to get his head."

The best approach, he says, is "be honest and say: 'Yes, this is what happened, we will fix it.' Then things calm down very quickly."

Equally, he says, it is important to ignore some social media.

It would be remiss not to talk about the work Puri has led in philanthropy and community engagement.

The bank's Parivartan initiative commits more than 10% of its workforce to social causes, for example, and its Sustainable Livelihood Initiative seeks to break poverty by empowering, training and financing women.

"Maybe 15 years back we said: 'We have to give back to society,'" Puri says. "In this country a large proportion of our population is uneducated but skilled. They know how to embroider, how to cook, how to inlay marble, how to carve, but they are unable to convert that into a sustainable business."

HDFC programmes cope with that and a host of other things. Its Holistic Rural Development Programme supports 1,200 villages with things like clean water, technology and education; it has trained teachers who in turn have taught over 20 million students; and it holds a place in the Guinness Book of Records for blood donation.

"One of the reasons we went into rural India was that we wanted to get rid of the money lender," he says. "Once you borrow from a money lender, you are indebted for generations."

He says HDFC Bank has brought 11.1 million families out of poverty through the Sustainable Livelihood Initiative and made a difference to the lives of over 78 million Indians through Parivartan.

In August, Puri wrote to all of his staff. "I haven't been happier than I am now as I write this," he began.

He wrote about CFO and named successor Sashidhar Jagdishan: "In him you have the best person to lead and I have the worthiest person to hand over the baton to."

He turned wistful: "If I look back, 26 years seems like yesterday. From my first office with broken chairs to now, what we've achieved in this time is incredible and doesn't have too many parallels globally."

He listed some of the bank's successes, with particular focus on the philanthropy and social contribution. Even amid Covid-19, Puri remains bullish on India and on his bank's place within it.

"We are confident that HDFC Bank should grow even better," he tells Euromoney, "and I shall watch from the sidelines while I have my beer." EM

The change agent: Sashidhar Jagdishan

When Aditya Puri was considering people who could replace him once he reached retirement, he took the front-runner, Sashidhar Jagdishan, a colleague since 1996 and the CFO since 2008, and gave him a new job, called 'change agent'.

"Everybody was laughing," Puri says. "What kind of designation is 'change agent'? I said: 'Change agent is very simple. His job is to change you.' And if he can deliver it, he is a bloody damned good replacement for me. If he can deliver this change, I've got my man."

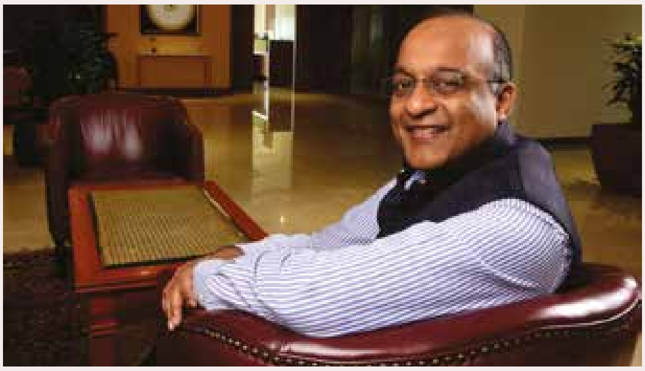
So it proved: Jagdishan, known to all as Sashi, takes over from Puri on October 27.

So who is this change agent?

Jagdishan has been at HDFC almost since the start. A chartered accountant by background, with a degree in physics and a master's in economics, he joined in 1996 as a manager in the finance division, become the business head of that function in 1999 and the CFO in 2008.

He is known as an amiable personality, though a disciplinarian as a manager; Puri has said: "He cares about people, he is motivational, he is a very thorough executor and he understands the business, and over a period of time the people in the bank love him."

It is understood that the other internal front-runner for the top job was Kaizad Bharucha, who runs the bank's wholesale operations.



Sashidhar Jagdishan 'is a thorough executor and understands the business,' says Puri

The talk in India is that Jagdishan is a shrewd choice, taking the job at a very tough time, with fairly obvious pros and cons to his appointment.

On the plus side, there is comfort in the fact that a man from the finance side should be expected to continue the tradition of prudence and exceptionally well-honed risk management. Having spent years on roadshows, he is a familiar face to investors.

On the minus: the lack of operational experience running product-based divisions of the bank, which is Bharucha's strength.

Some say they would have preferred Jagdishan to have spent his year as 'change agent' in charge of a business vertical instead, but it does appear that the time was spent becoming familiar with all the intricacies of the bank. Certainly there is a sense of continuity in putting a 24-year veteran of the bank in charge.

But the immediate challenge is to pilot HDFC through one of the roughest macroeconomic environments it has ever faced, one whose eventual recovery is exceptionally difficult to read or time.

It will be a tough start.