Headline: Nobody can find fault with the prime minister's execution skills'

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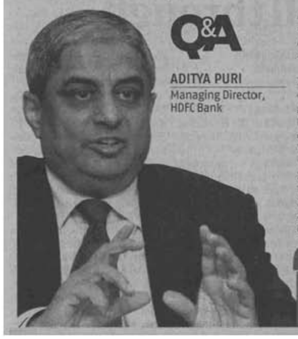
# 'Nobody can find fault with the prime minister's execution skills'



Q&A

ADITYA PURI
Managing Director,
HDFC Bank

A day after HDFC Chairman Deepak Parekh talked about impatience among businessmen as nothing had changed on the ground in the first nine months of the Bharatiya Janata Party government, HDFC Bank's Managing Director **ADITYA PURI** tells Manojit Saha and Nupur Anand the government is on track to improve ease of doing business and investment on the ground would probably take another 18 months or so. Edited excerpts:

**Is there a sense of disappointment over the government's performance in terms of ease of doing business or revival of investments?**

We have to look where we were, where we are and where we want to be. There was a time when inflation was high, we had a current account problem, fiscal deficit was an issue and there were questions over political stability. The rating agencies were talking about reviewing the country's rating. See what has changed after the Lok Sabha elections. Inflation is under control, we don't have a current account deficit or fiscal deficit issue. We have a stable government that is clear about what it intends to do on land acquisition, environment, insurance, labour reforms, goods and services tax, agricultural pricing policies, etc. The government also wants to create employment through the 'Make in India' initiative and is working on all of these. On manufacturing, processes are being simplified. The target is to substantially improve the ease of doing business. We know that nobody can find fault with the prime minister's execution skills, whether it is Jan Dhan Yojana or anything else.

> *We have to look where we were, where we are and where we want to be ... We have a stable govt that is clear about what it intends to do*

**But investments have not picked up yet ...**

Investments will follow a sequence and will take time. For this year, we are projecting gross domestic product growth of 5.2-5.5 per cent. That growth was based on clearing stuck projects and faster decision-making. As more and more efforts come, we can grow at six per cent next year. The delta of the investment will take it to seven per cent. But private investment will probably follow public sector investment. Investment on the ground takes time — may be another 18 months or so, from December.

**No one is disputing the intention but the criticism is that nothing has changed on the ground.**

I disagree with that school of thought.

**HDFC Bank has a comfortable capital adequacy ratio of 15.7 per cent. Why did you raise another ₹10,000 crore earlier this month via share sale, even though the economy isn't growing fast enough?**

We are very confident the economy will pick up. That is why we have raised the capital. Consequently, our growth rate will also increase. Also, there are the Basel-III norms that require capital buffers, etc. We opened our share issue at a time when India was going to sleep — around 9 p m. We closed it before India woke up. We got an overwhelming response.

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# 'See merger possibility among public sector banks'

Q&A

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Managing Director, HDFC Bank

That is a vindication of the policies of the government and the consequent expectations of foreign investors on how the economy will perform and how we will perform. HDFC Bank's strength cannot be independent of the country not doing well. You will not get the price that we got. We sold in foreign markets at a premium. And we did not give discount in local markets. In all honesty, I would say we are very thankful to the finance ministry, the foreign investment promotion board (FIPB) and the Reserve Bank of India (RBI) in the expeditious manner in which they have approved our application so that we could meet the US regulator's deadline.

**But wasn't there a delay in granting approvals?**
There was no delay at all. If we hadn't gone in the first week of February, then I would not have been able to raise [capital] till the first week of July. So, the delay cannot be attributed to anybody.

**Infrastructure is in a mess and the public-private-partnership (PPP) model is broken. There is a school of thought that the government has no option but to increase its share of infrastructure financing.**
First, a lot of public sector entities are sitting on cash, which they should either return or put in projects. Second, coal is an unexpected bonanza; spectrum will also bring money; so will disinvestment. The finance minister has said he will stick to his fiscal conservativeness. Along with all these, there will be some reallocation of subsidy. If the government takes the lead, private sector investment will follow and probably it will follow fast. Also let us understand why the PPP model did not work. Finally, it has to provide a return to the party. Such models will work only if properly executed. I do believe the government is working on a number of schemes, which may be announced in the Budget or later.

**"We are very thankful to the finance ministry, the Foreign Investment Promotion Board and the RBI in the expeditious manner in which they have approved our application so that we could meet the US regulator's deadline"**

**Do you think it's time for the central bank to cut interest rates sharply?**
Absolutely. The governor has already said inflation and macroeconomic fundamentals were moving in the same direction. With inflation under control now and if fiscal deficit is kept under check, then there is no reason why rate will not be cut. The RBI governor is not saying he does not want to cut rates; he is looking at the sustainability of low inflation. If inflation has come down to five per cent, and taking into account a spread of two per cent, why should the rate of interest not come down to seven per cent?

**Why is the base rate not coming down even after RBI's rate cut?**
Spreads (actual interest rate over the base rate) have already come down. As the deposit rates are getting reduced, base rate will also come down, may be in the next quarter.

**Deposit rates are still at 8.5-8.75 per cent, though inflation has come down to five per cent.**
Demand for credit was not there. But deposit rates will certainly further come down in the next three to four months.

**RBI has now allowed chief executives of private sector banks to continue till the age of 70. Your present term will end in October this year, as you will reach 65. Will you continue?**
The question is, am I young, willing and able? So, as long as the board thinks I am fit and the shareholders think I am fit, I would say yes. I think the board will review it in its meeting in March and recommend for approval. My wife and daughter definitely do not want me at home.

**What's the status on the HDFC-HDFC Bank merger?**
We just did a share issue. If there was anything on the table, then it was incumbent on us to mention it. HDFC had made a statement that in the long run we believe it is beneficial for both the corporations. In the meantime, we need some concessions in the balance sheet of HDFC to make sure it is beneficial for both shareholders. These are small things that are under discussion. As and when we get a favourable response, we will examine it. At the moment there is nothing on the table.

**What other concessions are you are looking for?**
We have asked regulatory clarity around CRR (cash reserve ratio), SLR (statutory liquidity ratio), priority sector lending, tax, etc. Some parts have been covered and some parts need little more clarity. We are in discussions with the regulator.

**Several banks have expressed interest in payments banks. Will you also look at a joint venture?**
I am already a big payments bank. So, at this point of time we don't see a merit in a tie-up. We can also buy later or apply later but I will always have the inherent advantage.

**The government has decided to infuse capital in the more efficient public sector banks. Do you think this is a signal that only performers should survive? Does this open an opportunity for private banks to acquire weaker public sector banks?**
What the government is saying is if you do not create viability in your business, I cannot carry on infusing capital. So, they are saying either you increase your efficiency, or merge or cut down your balance sheet. I do see the possibility of mergers among public sector banks but not a private sector bank acquiring a public sector bank.